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NEWS SUMMARY

GENERAL

Refugee flood may grow

The tide of Vietnamese refugees flooding South-east Asia may be even bigger than first supposed, Lord Carrington, the Foreign Secretary, warned in Kuala Lumpur after talks with the Malaysian Government.

A Malaysian plan for temporary UN-sponsored processing camps in other countries to ease the Malaysian refugee problem is expected to be presented to the UN conference on Indochina refugees, which begins in Geneva on July 20.

Meanwhile, Mr. Michael O'Kennedy, the Irish Foreign Minister and president of the EEC Council of Ministers, said the EEC will review its financial assistance to Vietnam if Hanoi fails to halt the refugee flood. Page 2

Patients at risk

Cuts in revenue spending in the health service "will result in a risk to patient mortality," according to health service management and medical reports. Back Page. The Royal Commission on the health service is expected to publish its long-awaited report later this month, and to recommend substantial changes. Page 4

Post problems

Sir Keith Joseph, the Industry Secretary, could make a statement in the Commons today about the problems of the Post Office, which ... been given permission to ... ease its overdraft limit ... m to £325m following ... computer staff work ... phone bills. Back Pa...

Kor... ...ative

Presi... ending a two-day ... South Korea, ann... major new diplo... ...ative with South ...sident Park Chung-... ...id to resolve issues ... since the Korean ... ...ge 2

...rist terror

...aymakers in Spain's ... resorts faced renewed ...reats as Basque guer... ...tinued their campaign ... ...ge the country's tourist ... Seven bombs went ... hours in Benidorm, ... and Malaga.

C...ales

... 70 per cent of all ne... sold in the UK last ye... bought or leased for so... ...ect. of business use, ...vey published today by ... British Institute of M... ...nt. B...

Th... service

Fo... ...eral leader Jeremy Th... ...d his wife Marion atte... thanksgiving service in ... Devon church for The... ... Bailey acquittal on con... ...o murder charges.

In...als

Brit... ...ed second to Russia in t... ...pean Athletic Cup semi... Malmo, Sweden, to qua... place in the finals in T... August.

Bri...

Ugan... ...sident Godfrey Binai... ...sed a curfew in parts of ...pala to curb outbreaks of ...ed violence. Page 2.

Jean-Pierre Jabouille of France won the French Formula One Grand Prix at Dijon in a Renault.

T.I. Raleigh, led by world cycling champion Gerrie Knetemann of the Netherlands, won the team time-trial fourth stage of the Tour de France.

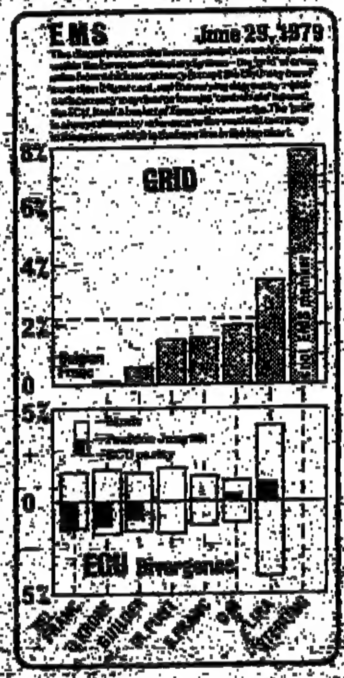
BUSINESS

Strike may shut Polaris base

● BRITAIN'S major Polaris nuclear submarine base at Faslane on the Clyde faces virtual closure from today as the Institute of Professional Civil Servants has called out 12 key officers who control the maintenance and loading of nuclear warheads.

Disruptions at Rosyth, Portsmouth and Devonport are also likely to be intensified by sporadic stoppages, and the union warned that the action by scientists and technicians could close some yards and installations. Page 7

● BELGIUM franc remained the weakest member of the European Monetary System, despite the rise in the Belgian National Bank's key lending



rates late on Thursday. It finished the week at BFr 16.0800 against the Deutsche Mark.

On Thursday, the German currency rose to BFr 16.0775, above its EMS ceiling of BFr 16.0740, but was brought back by the Belgian authorities selling Deutsche Marks.

The Belgian franc fell well outside its warning divergence limit against the ECU on Thursday, but was only slightly outside the limit on Friday.

● INDUSTRY SECRETARY is expected to announce plans to top up ordinary regional industrial aid with special grants to attract foreign investment. Back and Page 4

Tougher price rise laws likely

● TRADE DEPARTMENT is expected to spell out plans for tougher laws to improve business competition and help curb excessive price rises in a document to be published soon. Back Page

● WORLD CAR output, which rose by 43 per cent between 1970 and 1978, will grow by less than 8 per cent in the years to 1985, says the Economist Intelligence Unit. Page 3

● FIAT BRAZIL is to export 20,000 of the world's smallest diesel-engined cars to Europe from next spring. The "147" will be sold in Italy at first then in other countries. Back Page

● JOHN BROWN Engineering of Clydebank has started a profit-sharing scheme for its 2,000 staff, which, it is hoped, will lead to a basic pay deal in single figures for the next wage round. Page 7

● POLAROID of the U.S. is facing increasing problems with unsold stocks of instant cameras and will lay off a further 390 workers at its main plant in Massachusetts. Page 15

● BICC, the UK cables group, has acquired the Mineral Insulated Cable division of GK Technologies of the U.S. for $1.3m (£600,000) cash. Page 15

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Treasury warning of no growth in next few years

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

Treasury Ministers will shortly warn the Cabinet that there may be little or no growth in total UK output over the next few years, and possibly throughout the lifetime of this Parliament. This view will be presented alongside proposals for further substantial cuts in public spending from next year.

Treasury officials have recently completed one of the gloomiest ever medium-term economic assessments.

Their conclusion is that, in spite of rising North Sea oil production, the prospects are poor for any general expansion of the economy. This reflects both the expected slow growth of world trade and the deteriorating competitive position of British goods.

Treasury Ministers will argue that in these circumstances there needs to be a reduction in the share of public spending in total output to allow more scope for the private sector.

The broad aim appears to be to reduce the volume of expenditure in 1980-81 by roughly £1bn to £1½bn below the expected level for this year. But this has not yet been discussed by the Cabinet.

Mr. John Biffen, the Chief Secretary, backed by the Prime Minister, asked departments to prepare options on the basis of either a stated percentage reduction from Labour's plans of last January or the cuts exercise prepared by the Tories in Opposition, depending on which produced the larger sum.

This has created some irritation in parts of Whitehall among both politicians and civil servants. While the pre-election cuts exercise was the most detailed carried out by a party in opposition, several shadow spokesmen, who are now Ministers, regarded the (often large) totals agreed then for 1980-81 as tentative and subject to later review.

The more conventional options are being prepared on the basis of reductions of 5 and 7½ per cent below Labour plans for 1980-81 onwards. All Whitehall spending departments had to submit their proposed cuts to the Treasury by the end of last week.

A complicating factor is that the cuts in some programmes, notably in the industry, employment and environment budgets may have to be larger than this in order to accommodate increases elsewhere, notably in defence.

Moreover, there may have to be adjustments to offset both the once-and-for-all element in some of this year's spending cuts and the results of the pay comparability studies.

There also appears to be a general desire to secure a better balance between current and capital expenditure after the sharp reduction in public sector investment in recent years.

The Treasury proposals will be put forward in the form of a paper on the medium-term economic outlook from Sir Geoffrey Howe, the Chancellor, an danother from Mr. Biffen on the implications for spending plans. The hope is that the Cabinet will at least agree the broad strategy and totals for 1980-81 by the end of July.

All this is part of the annual review of expenditure plans—known as the PESC exercise—which leads up to the publication of a White Paper next January.

The operation has had to be truncated this year. This is because of the election and the need to review spending plans for the current year in time for the Budget. The volume of expenditure in 1979-80 was cut by at least 3 per cent below the previously planned total down to about last year's level.

Industry fears 'bleak' prospects

By Peter Riddell and David Freud

INDUSTRY IS becoming increasingly worried about the erosion of its competitive position in both domestic and overseas markets and about the "bleak" prospects for company liquidity and profitability.

These are the main conclusions of the Confederation of British Industry's latest Economic Situation Report. Published today, it is based on the June monthly trends inquiry and regional views.

The results are similar to those of the FT monthly business opinion survey, which is also published today.

The CBI concludes that "the economic environment, in the short-term at least, is likely to be a difficult one for businessmen."

The report warns: "If the increases in unit costs from settlements in the coming pay round are not significantly below those in the past two years, companies will find it difficult to maintain investment and employment."

The trends inquiry shows that while there has been a further improvement in current total and export order books, companies expect the recent quite rapid growth will slow down during the coming four months.

Producers of consumer goods enjoy healthier order books, both at home and abroad, than those manufacturing capital or intermediate goods.

The continued recovery in demand contrasts with a weakening in output expectations. This is most marked among producers of capital and intermediate goods and among larger companies. A possible explanation is that companies may be intending to reduce stocks of finished goods. There has been a small increase in the number of companies reporting adequate or more than adequate stocks.

The proportion of companies expecting to raise their average domestic selling prices over the next four months remains about two-thirds, only slightly higher than in the previous couple of months.

The inquiry was based on 1,892 replies from manufacturing industry and was conducted in the fortnight up to June 20, straddling the Budget on June 12.

According to the FT survey, the Budget was generally well received by industry. There

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FT survey details, Page 18

Carter plans new energy measures soon

BY JUREK MARTIN, U.S. EDITOR, IN WASHINGTON

PRESIDENT Jimmy Carter, due to return to the U.S. late last night from the Far East, is expected to announce a further series of measures soon to combat the U.S. energy crisis.

He will also hope to reverse the sharp erosion in his public standing that has been exacerbated by his administration's handling of the fuel problem.

Speaking to reporters on his flight home, the President agreed that the latest round of oil price increases by the Organisation of Petroleum Exporting Countries had made more likely a domestic economic recession.

He said that 800,000 jobs could be lost as a result of the six-month escalation of international oil prices, while U.S. economic growth could be reduced by 2½ per cent over the next 18 months below what it would otherwise have been.

Another official accompanying the President said that no real growth in the economy could now be expected for the current year.

It is not clear yet whether the President, who abandoned a planned short holiday in Hawaii this week to return to Washington from Tokyo and Seoul, will seek to combine assorted initiatives into another energy policy package or will adopt more of a piecemeal approach, relying on his own executive powers while backing other actions by the Congress.

However, Vice-President Walter Mondale, in a television interview yesterday, spoke of a

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● Esso puts on 6p a gallon, Page 4
● Editorial comment, Page 12
● Registering world oil transactions, Page 13
● Farmers seek fuel priority, Back Page

"massive programme" to develop alternative sources of energy, financed out of the proposed windfall profits tax on the oil companies now before Congress.

The Vice-President, who described the OPEC price increases as "a crushing blow," also said that by autumn new negotiations with Mexico for greater natural gas imports should be concluded.

The Administration is also showing interest in a multi-million dollar energy regional development fund for Latin America being drawn up by the Inter-American Development Bank.

Although Mr. Mondale ducked questions on the implications of the energy cruch for next year's presidential elections, Mr. Carter is returning home to a political position more precarious than it was before his summit ventures in Vienna and Tokyo in the last two weeks.

Tough stand at summit

BY REGINALD DALE

THE LATEST oil-price increase caused the world's seven leading industrial nations to toughen their stand towards the Organisation of Petroleum Exporting Countries during last week's Tokyo summit, it emerged at the weekend.

The decision to take a less conciliatory line in the summit's final communique was at the initiative of President Jimmy Carter and Chancellor Helmut Schmidt.

News of the OPEC price decision in Geneva began reaching Tokyo on the first day of the two-day summit—although the timing of the meetings was coincidental. The seven Western leaders delayed discussion of energy, the dominant topic at the summit, to give them time for an assessment of OPEC's action.

The outcome was a strongly-worded communique, deploring the move by the oil producers and warning that it would have a "crippling effect" on some developing countries. References in an earlier draft communique to the need for a new dialogue between oil consumers and producers were cut out.

Mrs. Thatcher ready to end Rhodesia sanctions

BY ANDREW CLARK IN SYDNEY AND ELINOR GOODMAN IN LONDON

THE Prime Minister made it clear yesterday that she expected 14 years of trade sanctions against Zimbabwe Rhodesia to end this autumn.

Speaking Australia, Mrs. Margaret Thatcher said she doubted very much whether a renewal of sanctions would get through Parliament when they came up for renewal in November.

Recognition of the Government in Salisbury was, she emphasised, a separate issue which might take "just a little bit longer" to resolve.

But, in a series of policy statements which seemed to edge Britain closer towards recognition, she said it was wrong to be too pessimistic about other Governments joining Britain in a collective act of recognition of the Government led by Bishop Abel Muzorewa.

In admitting the parliamentary difficulties involved in renewing sanctions, Mrs. Thatcher was saying in public what until now has been acknowledged only in private. Nevertheless, her statement is likely to provoke a storm of protest from Labour MPs, who were already saying yesterday that it meant that Britain had thrown away one of its few real negotiating cards in its talks with the Salisbury Government.

The Opposition is likely to intensify its pressure for a debate on Rhodesia before the Prime Minister leaves for the Commonwealth leaders' conference in Lusaka at the end of the month, when the Rhodesia issue is expected to overshadow all other topics on the agenda.

If the Government does not agree to provide the time for such a debate itself, the Opposition may decide to use one of its own supply days for this purpose. This would provide Mr. James Callaghan with an opportunity to attempt to undermine Mrs. Thatcher's claims that she could not get the renewal of sanctions through the House by offering the support of his own MPs for the order.

After lengthy talks with Mr. Malcolm Fraser, the Australian Prime Minister, and Mr. Andrew Peacock, the Foreign Minister, Mrs. Thatcher does not seem to have succeeded in persuading Australia to adopt a more favourable attitude towards the new Rhodesian Government. Australian officials said that Australia remained opposed to recognising the new Government under its white-imposed constitution.

● Bishop Muzorewa faces a crucial week in his bid to obtain international recognition and the lifting of economic sanctions. He will hold talks with Lord Harlech, Mrs. Thatcher's special envoy, who is due in Salisbury tomorrow. Later this week the Bishop will fly to Washington and London.

Delay over double tax treaty

BY DAVID FREUD

THE GOVERNMENT has decided to delay Parliamentary consideration of the UK-U.S. double tax agreement. The move follows a campaign by a group of 40 major companies against its rapid ratification.

The companies, which include EMI, Foseco Minsep, Chloride and Plessey, have urged that MPs should not consider the revised treaty until there are firm U.S. moves to stop the use of the controversial unitary tax system by some States.

Last year the Senate threw out a clause in the treaty preventing states from using unitary tax—tax assessed on the basis of a proportion of a company's worldwide income.

The revised text negotiated by officials does not include the clause and the UK companies, as well as Conservative backbench MPs, argue that rapid ratification would imply acceptance of the principle of unitary taxation.

The Government appears to have accepted this argument. The amending protocol to the treaty is expected to be ratified by the full Senate on July 9 but the Commons will not now consider the protocol before the recess, which begins at the end of the month.

This means the Senate's reaction to a separate Bill aimed at controlling unitary taxation of foreign companies by individual states will be known by the time MPs return in mid-October.

The Senate committee hearings on this bill are held in September. It is likely that Mr. Peter Rees, Minister of State to the Treasury and responsible for tax treaties, will visit the U.S. the same month for talks.

The companies dislike unitary taxation because its wide adoption could lead to multiple taxation of profits.

There are grave fears among Whitehall officials and some sections of British business that any attempt to use the long-delayed treaty—on which negotiations began in 1973—to put pressure on the U.S. could backfire.

Steel Board rejects changes

BY ROY HODSON

PLANS BY Sir Charles Villiers, chairman of the British Steel Corporation, to reorganise the management of the corporation and make changes among top executives have been rejected by his 20-man board.

Sir Charles recently had his three-year appointment extended by a further year until September, 1980.

Tomorrow he will announce heavy losses by British Steel for the fourth year in succession. A deficit of some £325m for 1978-79 is expected, compared with £443m in 1977-78 and £350m in the two years previously.

Sir Charles wanted to soften the blow of the new losses with the promise of a radical overhaul of British Steel's management. The power of central management at Grosvenor Place, BSC's London headquarters, was to be much reduced and responsibility for making profits pushed out to the directors of 15 new profit centres in the regions.

Unexpectedly his Board opposed the plan. A majority of more than two to one spoke against it when they were given details a few days ago.

The present BSC policy Board, which was largely appointed on Sir Charles' advice, includes five businessmen, five British steel executives, six employee directors, and two civil servants from the Treasury and the Department of Industry.

Employee representatives on the Board opposed changes in the Corporation's structure because they felt the spotlight would be thrown on loss-making steelworks with the result that the works closures programme might be accelerated.

Some support for Sir Charles came from independent businessmen on the Board.

Carrington warns refugee outflow may increase

BY PHILIP BOWRING IN HONG KONG AND REGINALD DALE IN KUALA LUMPUR

THE TIDE of Vietnamese refugees flooding South-East Asia may turn out to be bigger than supposed, Lord Carrington, British Foreign Secretary, said after talks with the Malaysian Government.

At least 40 per cent of the "boat people" reaching Malaysian waters are now ethnic Vietnamese, against only 14 per cent when the flow started. This suggests than an even greater proportion of the country's population may ultimately leave or be forced out.

In Bali, Foreign Ministers of the ASEAN countries—Malaysia, Thailand, Singapore, Indonesia and the Philippines—said the exodus of refugees had now reached *crisis proportions.*

The movement of peoples was "causing severe political, socio-economic and security problems" in their countries, they declared at the end of a three-day meeting.

The fear is that the refugee tide could continue flowing much longer than expected if ethnic Vietnamese start coming out in greater numbers, on top of the 1m or so Chinese still left in Vietnam.

Even some former Viet Cong soldiers are now reported to be leaving.

Malaysian Ministers told Lord Carrington of their plan for a series of temporary UN-sponsored processing camps in other countries, such as Australia, Indonesia, and U.S. territories in the Pacific.

Only if such camps could take some of the strain would Malaysia be willing to admit more refugees.

Until then, however, Malaysia will continue its policy of "shooing away" new arrivals, despite its regret at being forced to do so.

Lord Carrington, who met the "*boat people*" *in person in* Hong Kong yesterday, had to settle for a promise by the Malaysian Government that it would change its tough policy "as soon a possible."

The Malaysians are expected to present their plan to the UN conference set for Geneva on July 20-21. They want UN finance for the processing camps and a UN guarantee that the camps will only be temporary—a guarantee some possible host countries may regard with scepticism.

The refugees conference will *be held at Ministerial level.* Sixty countries are being invited, including China and Vietnam. It now seems likely that Vietnam will attend.

Dr. Kurt Waldheim, UN Secretary-General, said the conference will concentrate on the humanitarian and resettlement aspects, rather than political ones.

Thus, Vietnam's preconditions would appear to have been met: That the conference only be attended by countries directly concerned—countries where the refugees are arriving and countries assisting their resettlement, and that it should not discuss Cambodia or be used for a political purpose.

Invitations are being sent to all OPEC countries as well as Western European, ASEAN, North American and Australasian nations. Some Latin American representatives may also attend.

Police told to halt arrests in Tehran

By Andrew Whitley in Tehran

CRIMINALS in the Iranian capital have been given a field day, by courtesy of the Government which is enmeshed in a prolonged dispute with *the Revolutionary Committees* over control of Tehran's prisons.

Mr. Abolfazl Shahshahani, Tehran Prosecutor-General, has instructed all policemen not to make any more arrests until further notice. The capital's senior legal officer also told the courts not to hear any more cases.

Control over Tehran's main prison is the issue over which Mr. Shahshahani issued his extraordinary order. He said "people without responsibility" had controlled the prison since February. Despite several meetings they were not prepared to relinquish their grip, and as the two other places of detention at the disposal of the police and Justice Ministry had only limited capacity the police would have to stop their work.

The unresolved problem of the excess of "decision-making centres," as they are known here, is reported to have led to a fresh crisis in relations between Dr. Mehdi Bazargan's Government and the group of ruling clerics led by Ayatollah Khomeini.

An extraordinary meeting was held in Qom at the week-end between the Prime Minister and his Cabinet, the Revolutionary Council and the Ayatollah.

Dr. Bazargan was believed to have demanded full executive powers.

New Korea talks proposed

BY RICHARD HANSON IN SEOUL

THE U.S. and South Korea yesterday concluded two days of summit meetings with the announcement of a major new diplomatic initiative aimed at bring North Korea into tri-lateral talks on the thorny issues which have divided North and South since the Korean War ceasefire in 1953.

Discussions between President Carter and South Korean President Park Chung-Hee also produced a reaffirmation of the American commitment to the defence of South Korea and the likelihood that Mr. Carter will formally freeze plans for withdrawal of U.S. ground forces—an assurance anxiously sought by South Korea—after further consideration in Washington.

President Carter meanwhile nettled his host with pointed references to human rights, a very sensitive issue for the South Korean Government. Mr. Carter, in a nationally televised banquet appearance, toasted President Park by calling for progress equal to the achievements made in the economy "through the realisation of basic human aspirations in political and human rights."

Mr. Carter met briefly with Church and other dissident leaders, with discussions ranging into human rights. At the end of his visit he had Mr. Cyrus Vance, his Secretary of State, present the South Korean Government with two lists of people who have been detained by the Government, asking that the "cases be investigated and that the people be released." One was compiled by the U.S., the other by Amnesty International.

Mr. Vance told reporters that the U.S. and South Korea yesterday *transmitted to Pyongyang,* the capital of North Korea, through a third party, the joint proposal for officials of the three countries to meet "to seek means to promote dialogue and reduce tensions in the area."

U.S. envoy to inspect West Bank

By L. Daniel in Tel Aviv

A FLURRY of diplomatic activity is preceding resumption of the autonomy talks due to start later this week between President Sadat and Mr. Begin, the Israeli Prime Minister.

Mr. Robert Strauss, the U.S. special ambassador, who will be leading the American delegation at the autonomy talks in Alexandria on July 5-6, was due to arrive in Israel yesterday afternoon.

Mr. Strauss will hold two private meetings with the Israeli Interior Minister, Dr. Yoseph Burg, who is leading the Israeli delegation to the autonomy talks, in addition to attending two formal sessions between the U.S. and Israeli delegations.

He will also be taken by helicopter to inspect the West Bank. It is expected that the Americans will bring pressure to bear on Mr. Begin to halt or contain Israeli settlement in the West Bank.

Reacting to U.S. criticism of Israeli operations against Palestinian guerilla bases in Southern Lebanon, the Israeli Cabinet yesterday re-affirmed it would continue to hit such bases at such times and in whatever way it considered appropriate to protect Israel's security.

Two explosions occurred in Jerusalem and Tel-Aviv yesterday.

Protest over attack on FT man

BRITAIN MADE a strong protest to Pakistan yesterday about the lack of consular access after the attack in Islamabad by a group of men on Mr. Chris Sherwell, the correspondent for the Financial Times and the BBC.

Mr. Robin Fearn, the chargé d'affaires, complained to the Pakistan Ministry of Foreign Affairs at the delay in granting access to Mr. Sherwell after the incident on Friday, and over the fact that he was not allowed by the police to make a telephone call.

Mr. Sherwell has said he was attacked while following up a story about Pakistan's alleged attempts to make a nuclear bomb. He suffered shock, cuts and bruises.

A Pakistani Foreign Ministry official expressed regret at the incident and said the Ministry would take up strongly the denial of consular access and would be asking the police to conduct a full and immediate enquiry.

He denied there was any connection between the attack on Mr. Sherwell and the incident three days earlier when the French Ambassador to Pakistan and one of his staff were beaten up outside an installation near Islamabad, believed to be connected with Pakistan's nuclear programme.

Mr. Sherwell has filed a complaint alleging criminal assault, forcible confinement and robbery. His notebooks and $70 were taken from him during the attack.

Agencies

Irish motorists face 15p rise in petrol price

By Stewart Dalby in Dublin

IRELAND'S motorists almost certainly face a 10p rise in the price of petrol because of last week's OPEC decision, and the increase could soon be as much as 15p a gallon.

If the latter rise is imposed, this means top-grade petrol will cost £1.25 at the pumps.

But with a further OPEC rise later this year, Irish motorists could be paying £1.50 a gallon by early 1980.

The shortages, and the long queues at garages, have largely disappeared but Ireland remains extremely vulnerable to the effects of oil shortages.

In 1977, the country consumed 7.51m tonnes of oil equivalent. Some 84 per cent of its energy requirements are imported, and 75 per cent of its imports are oil.

Ireland's refining capacity is 40 per cent of its oil needs. It has no national oil corporation. Although petrol is expensive to the consumer, the wholesale price, at about 45p a gallon, is probably the lowest in Europe.

Rawlings says Ghana still respects law and justice

BY MARK WEBSTER IN ACCRA

GHANA HAS NOT forgotten its respect for law and justice, Flight-Lieut. Jerry Rawlings, chairman of the Armed Forces Revolutionary Council (AFRC) said in a week-end broadcast. The announcement has provoked speculation that no more executions will take place in the country.

Flight-Lieut. Rawlings said that international fears that human rights were being flouted in Ghana were understandable. But he added that a "better appreciation" of what was happening in the country would show that those fears were unfounded.

He said those found guilty by secret military tribunals, known as People's Courts, would still be punished. However, diplomats regard it as significant that he only mentioned such punishments as "re-education" on farms and confiscation of property.

It was the execution by firing squad of eight prominent members of former military governments which caused widespread concern in African and Western nations.

The most damaging protest came from Nigeria, which threatened to cut off oil supplies if Ghana went ahead with more executions. The petrol rationing which came into force in Ghana last week is seen as an indication that the Nigerians are carrying out their threat, although no confirmation has been forthcoming from either government.

Meanwhile, the "housecleaning" operation undertaken by the AFRC to root out corruption among the military and civilians is continuing apace. An ultimatum to those who owed back taxes to pay up immediately resulted in long queues at tax offices, according to local newspapers.

Curfew order for Kampala

By John Worrall in Nairobi

THE UGANDA Government of President Godfrey Binaisa has imposed a curfew on some areas of Kampala because of further outbreaks of armed violence.

One of these areas is the suburb of Kololo Hill, where many diplomats have their residences and where many armed robberies have taken place in the past few days.

Other areas covered by the curfew are in parts of the city where there is still unrest over the recent ousting of President Lule.

From Lhasa, K. K. SHARMA describes his arrival in the New Tibet

Journey to the Roof of the World

The four-engine Ilyushin banks sharply to enter into the narrow upper reaches of the Brahmaputra River Valley.

Then it swoops between craggy hills to land at nearly 14,000 feet, on the Roof of the World.

The drive from the landing strip—opened in 1966—to Lhasa is nowhere near so dramatic. A land cruiser negotiates the dusty 40-mile road, encountering a few yak, fewer Tibetans and occasional abandoned Buddhist monasteries before crossing a long bridge over the river to bring the first Indian journalists—three of us excited at the prospect of being the first Indians in Tibet for over two decades—to the capital, Lhasa.

Nothing mysterious here as we thank our stars for an asphalted road after a two-hour bone-rattling drive to reach the capital.

From the distance, we can see the famous 13-storey Potala Palace, former headquarters of the Dalai Lama, the God king of Tibet, now living in the Dharamsala hill station in the Lower Himalayas of India.

It is partly due to him that we are here. The Chinese have recently been making overtures to the nearly 60,000 Tibetan refugees in India, and strongly hinting that they are welcome back.

The Dalai Lama has not yet accepted, and in fact has made a brief trip to Russia instead.

But some of his followers have shown interest in the new Tibet which we are here to see, about a fortnight ahead of the 40-odd foreign correspondents based in Peking.

The Chinese mean this as some kind of gesture though we are unable to make out what it is intended to suggest.

Ahead of us lies a busy programme, visiting communes, factories, development projects and even monastries. Presumably, it is an effort to show how Tibet has been transformed since the Dalai Lama fled the world's highest plateau in 1959.

A success story obviously lies ahead for us to discover, or else we would not be here. How far it impresses the Tibetans in India remains to be seen.

The first impressions hardly indicate anything. Certainly, there are visible a large number of people of Han origin. They are present in large numbers, both as residents and as members of the strong contingent of the Chinese People's Liberation Army.

We saw many of them on the way to Lhasa and there are plenty of uniforms evident in the capital of this autonomous province.

The Chinese admit there are a substantial number of Han settlers in Tibet. The proportion comes as something of a surprise—as many as 600,000—compared to about 1m ethnic Tibetans.

Lhasa itself is a bleak town. The gold-roofed Potala dominates its low grey buildings, nestling in a valley surrounded by barren rock and sand hills that look much like enormous craggy sand dunes, only more forbidding.

We are warned to take it easy today, our first day here, and justifiably so. The rarefied atmosphere makes for heavy breathing and listlessness. So we are advised to rest at least for the day before finding out for ourselves how Tibet has been transformed.

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Sharp decline forecast for world car industry

BY KENNETH GOODING

WORLD CAR production, which jumped by 48 per cent between 1970 and 1978, will advance by less than 8 per cent in the years to 1985, according to Economist Intelligence Unit forecasts.

The main impact will be felt in Japan where output soared by 87.5 per cent to 6m a year in 1970-78. The EIU sees no growth for Japan between now and 1985, said Mr. Arthur Way, editor of the EIU's Motor Business at a seminar organised by stockbrokers Phillips and Drew.

He maintained that Japanese prospects were dimmed by moves towards protectionism in Western Europe and North America: by the indigenous motor industries developing in a number of Japan's export markets and by the pressure for the Japanese to establish assembly plants in the U.S. and Europe.

Of the other major trading blocks, Mr. Way suggested that in North America, after a 39 per cent growth to 10.4m units a year between 1970 and 1978, car production would slip by nearly 4 per cent a year by 1985.

Similarly, in Western Europe, the early-1970s growth of 15 per cent would be transformed into a fall of nearly 1 per cent by 1985 with output down from 11.6m a year in 1978 to 11.5m.

Production outside the three main trading areas would rise from 4m to 7m by 1985, forecast Mr. Way, leaving the world total slightly ahead.

According to the EIU, the outlook for commercial vehicle production is not particularly bright either.

Between 1978 and 1985 output in North America is forecast to drop by more than 9 per cent from 4.4m a year to 4m. In Western Europe production should remain around the 1.5m per annum level.

Japan should see some growth, from 3.3m to 3.5m a year, but this would represent only a 6 per cent rise compared with 61.5 per cent from *1970* to 1978.

World commercial vehicle output is expected to go up by just 1 per cent to reach 10.6m units a year by 1985.

Dutch gas reserves upgraded

BY CHARLES BATCHELOR IN AMSTERDAM

THE NETHERLANDS has large enough gas reserves to meet its needs for another 45 years—20 years longer than its present most farsighted plans extend—the National Gas distribution company, Gasunie said.

But this forecast is based only on "expected reserves," which it defines as those with a 50 per cent chance of actually being recovered. This apparently favourable picture also contains a number of other uncertainties, it said in its annual gas supply plan.

These estimates assume only moderate levels of economic growth and an active policy of energy conservation. They are *also based on the expectation* that gas will only be called on to supply one-third of total energy needs by 2003 and will lead to increased dependence on uncertain imported fuels.

Proven reserves—those with a 90 per cent chance of being recovered—amount to 1.739bn cubic metres while expected extra supplies from Dutch sources and imports are estimated at 815bn cubic metres.

This would leave more than 800bn cubic metres—enough for a further 20 years—after allowing for the 1.691bn expected to be used under the *present* 25-year plan.

Under the more cautious estimate of use, based only on proven reserves, Gasunie expects the available supplies of 1,739bn cubic metres to exceed demand by 243bn cubic metres in period up to 2003. Domestic deliveries are estimated at 891bn and exports at 605bn.

Proven reserves declined by 79bn cubic metres last year. Set against deliveries of 90bn this represents an increase of 11bn in reserves. This increase—which was small compared with previous years—was due to the *fact* that scarcely any more imports were contracted while estimates of gas in some of the Dutch fields were revised downwards.

Gasunie has also been forced to reduce its estimate of the savings likely from the Government-supported housing insulation programme. This is now expected to save only 65bn cubic metres between 1980 and 1990 instead of 100bn.

Intensive efforts to discover new reserves and reach more import agreements are needed if supplies are to be maintained. A faster than expected growth of the economy would also put pressure on reserves, Gasunie said.

World Economic Indicators

UNEMPLOYMENT

		June '79	May '79	April '79	June '78
UK	000's	1,279.6	1,306.7	1,310.9	1,364.6
	%	5.3	5.4	5.5	5.7
Holland	000's	214.6	211.1	208.3	204.1
	%	5.2	5.1	5.0	5.1
		May '79	April '79	March '79	May '78
W. Germany	000's	775.1	875.5	957.7	913.0
	%	3.4	3.8	4.2	4.0
U.S.	000's	5,929.0	5,900.0	5,871.0	6,149
	%	5.8	5.8	5.7	6.1
Belgium	000's	285.4	289.7	294.2	276.7
	%	7.2	7.3	7.4	6.9
		April '79	March '79	Feb. '79	April '78
France	000's	1,290.6	1,312.0	1,341.9	1,105.7
	%	5.6	5.7	5.6	5.1
Japan	000's	1,240.0	1,350.0	1,210.0	1,230.0
	%	2.2	2.1	1.9	2.2

U.S. steel consumption expected to fall

By Giles Merritt in Brussels

A RISE of 2.8 per cent in world-wide consumption of crude steel has been forecast by the International Iron and Steel Institute (IISI) for 1979 over last year's levels.

In its latest updating of trends in steel demand, the Brussels-based IISI sees total world consumption reaching 74?m tonnes this year, with the countries of the Western world inceasing their demand by 2.6 per cent to 475m tonnes.

The IISI sees increases in consumption in all the main industrialised Western nations, with the exception of the U.S. where last year's steel use of 147m tonnes could fall to 143m tonnes in 1979. For the EEC and Japan, however, the Institute has revised the earlier forecast prepared for last September. Japanese steel consumption in 1979 is expected to be 71m tonne. 4.4 per cent more than originally expected, while EEC *use is marginally down at 109m* tonnes. The 1m tonnes drop built into the new IISI figures reflects an anticipated shortfall of ½m tonnes in both the UK and West Germany.

Energy costs

The new figures, were produced before the recent OPEC increase in crude oil prices, but the Institute emphasises that the likelihood of higher energy costs was considered in the new forecasts. Nevertheless it appears to doubt that the present energy *crisis will produce* the same phenomenon in steel consumption as that which followed the 1973-1974 crisis, when stockbuilding by industry helped sustain demand a pre-recession boom levels.

Developing

In its forecast, the IISI expects the Western industrialised countries to account for 383m tonnes of crude steel consumption, with developing countries taking 92m tonnes. Comecon countries are forecast to consume 218m tonnes, with China and North Korea together taking 48m tonnes.

PERU'S FOREIGN INVESTMENT POLICY

Constraints begin to ease

BY BRIJ KHINDARIA IN GENEVA

PERU IS cautiously lifting barriers to foreign investment *and is diversifying* its trade *as* part of a new economic policy aimed at ridding the country of the most glaring economic troubles in preparation for a return to civilian rule.

The current military regime has promised that power will be transferred to civilians by July next year. During a visit to Geneva, Mr. Javier Silva Reute, the new Finance Minister, who took over a year ago, said work on a constituent assembly was to be completed by early July of this year and that necessary legislation is currently being prepared to call elections.

A 30-month economic development programme begun in the middle of last year has brought unprecedented success, raising hopes Peru will be able to pull out of its galloping inflation and trade deficits. A massive effort is being made to diversify the country's foreign trade and to increase exports. Private foreign investment is being welcomed provided it helps to promote national economic *policy goals.*

"The actual regulations concerning foreign investment have not been altered much, but the manner of administering them has changed significantly," Mr. Reute said.

The rules are being interpreted in a more liberal manner, and foreign investors are no longer being treated with suspicion. The aim is to reduce red tape to speed up implementation of investment projects and to allow investors to repatriate a slightly larger share of profits under certain conditions.

The minister was in Geneva to address a group of 70 leading Swiss banks and businessmen to explain Peru's economic development programme.

Mr Reute said the main international trade problems facing Peru were falling raw materials prices combined with rising machinery and capital goods costs. This meant that export income tended to rise more slowly than the cost of imports needed for industrialisation.

Some aspects of economic policies were mismanaged in the past, leading to industrial stagnation and inflation. The main needs now are to control inflation, reduce foreign currency speculation, restore balance of payments equilibrium and restructure external debt.

The sectors that need the most help are agriculture, mining, fisheries, forestry and the processing industries. The new economic development programme has produced encouraging results so far. Inflation should be at a 40 per cent rate this year, almost half the 1978 rate. The trade account is likely to show a $700m surplus this year compared with $150m surplus last year and deficits during the three previous years.

One sign of successful performance is the 83 per cent increase in 1978 of non-traditional export items such as manufactured goods. Such exports are expected to double this year to reach a value of $700m out of total exports worth $3bn.

One of Peru's main aims in foreign trade is to reduce its dependence on the U.S. As a result it is trying to tighten trade links with Western Europe while increasing trade with other developing countries.

While foreign investors are not being given better treatment than that given to domestic enterprises, they are being encouraged through non-discriminatory treatment and incentives to transfer technology and develop export-oriented industries.

A report by Peru's Central Reserve Bank says that the balance of payments showed a $53m surplus during the first quarter of this year, while the country's international reserves increased by $106m. The trade balance showed a surplus of $206m compared with $18m during the same period last year, and exports reached $587m compared with $399m during the same period last year.

SHIPPING REPORT

Concern over oil price increase

BY LYNTON McLAIN

DEMAND for oil tankers rose sharply last week ahead of the oil price rises and the tanker market looked set for at least short term stability.

But there was concern among brokers about the rising burden of ships' bunker fuel prices amid the prospect that cut-backs in demand for oil would hit tanker operations.

Tanker owners only just covered their operating costs last week despite the active demand for vessels from oil companies. Bunker fuel prices—at over £70 a ton—cut operating margins and brought forward the prospect of more older, inefficient vessels being laid up.

There was slight optimism, however, that these influences may be countered by the call for more tonnage complying with the new International Maritime Consultative Organisation regulations.

However, trading in tankers last week, before the oil exporters' decision to raise prices, was active. Oil companies created an "explosion" of demand and inquiry for tanker tonnage to ship supplies ahead of any increase, said one broker.

Rates for loading cargoes in the Gulf in June and July rose several points to over Worldscale 40.

Trading out of West Africa and the Mediterranean was quiet and rates for large tankers fell. Demand for smaller vessels, however, was maintained.

In the Caribbean, demand for tankers of 40,000 tons was up on the previous week.

Olympics deal won by ITT

NEW YORK — IT and T announced that it has been selected to provide communications services and equipment at the 1979 Pan American Games and the 1980 Moscow Olympics.

ITT World Communications, a subsidiary, has been selected as the official carrier of worldwide record communications services by the organising committee of the Panam Games to be held in Puerto Rico next July.

The company will provide communications services for the more than 500 news correspondents expected to attend the games.

Dunlop India to make Jaguar tyres

BY OUR CALCUTTA CORRESPONDENT

DUNLOP INDIA, the country's oldest and leading tyre company, will be making tyres for the new Jaguar aircraft, which India will be importing for her defence services.

These tyres have been made already under the company's research and development programme and are presently undergoing their final qualification testing in Europe. Mr. A. W. G. Macintyre, the chairman said at the annual meeting.

At the other end of the company's range of research and development activities was the development of a modern bullock cart, designed to remove much of the strain on the animals and bring modern engineering principles to an ancient method of transport. A new range of animal-drawn vehicle tyres would be introduced in the current year.

Dunlop India's first factory was set up 49 years ago, and was now at a stage when a large investment *had become* necessary for modernisation of plant and equipment to improve produce specifications

Aluminium venture formed

TOKYO — SEVEN companies from the U.S., Australia and Japan will set up a new company in Australia late next month to start up a $500m aluminium production project at Gladstone, Queensland, from 1982, Sumitomo Light Metal Industries said here yesterday.

A spokesman for Sumitomo, one of the Japanese partners, *said the new company,* Gladstone Aluminium would be 80 per cent owned by Comalco
Reuter

Report could call for end of health charges

BY PAUL TAYLOR

THE ROYAL Commission on the health service is expected to publish its long-awaited report later this month and recommend changes in National Health Service organisation and internal financial arrangements.

The commission, set up by the Labour Government in May 1976 under the chairmanship of Sir Alec Merrison, Vice Chancellor of Bristol University, has *completed revision of the final* draft of the report.

Amid mounting speculation about the contents of the draft, the commission said yesterday that rumours that it would recommend the abolition of health service charges for prescriptions, dental treatment and spectacles, together with the continuing phasing-out of private patients' pay beds in the NHS, "will have to await comment until publication."

While the report will certainly deal with the more controversial areas of health service policy, like pay beds and health service charges, it is thought to adopt a non-political stance on these issues, which should not cause the Conservative Government too much embarrassment.

More Government attention is likely to be focused on the commission's *major* recommendation, which will probably concur with the Government's thinking on NHS structure and funding.

The commission is likely to *reflect* the comments made in many of the 2,000 submissions it has received during its investigation that the health service lacks resources; but it will also make the point that there is room for more efficient use of existing resources.

In particular, the commission is expected to recommend a simplication of the existing three-tier administrative structure, involving abolition of at least some of the area health authorities.

Such a recommendation would have the approval of Mr. Patrick Jenkin, Social Services Secretary, as would any more general recommendation that the *administrative* "tail" of the health service should be slimmed, with more power being devolved to the local district health authorities.

On financing, the commission is not expected to recommend any major shift away from funding through general taxation, although it is likely it will suggest ways of improving weaknesses in the internal *management of resources.*

The commission is thought to favour a tightening up of purchasing arrangements throughout the service, and may also call for a further study on the *criteria* adopted by the resource allocation working party, which attempts to distribute resources equally throughout the regions.

Mr. David Ennals, Secretary for Social Services in the Labour Government when the commission was set up, yesterday urged the Government to refrain from raising prescription charges or reversing the running down of pay beds until the report is published.

JOHN ELLIOTT SPENDS TWO DAYS WATCHING SIR KEITH JOSEPH AT WORK

Government guru seeks industrial truth

FOR THE past three weeks, leading figures in the more depressed regions of Britain have been exposed to a rare, if not unique, brand of Ministerial interrogation. Industrialists, union officials and local government representatives have been forced to shed their prepared briefs and indulge in impromptu dialogue with a senior Cabinet Minister about their areas' problems and ambitions.

The occasion has been a regional tour by Sir Keith Joseph, Industry Secretary, who has been seeking the truth about industrial decline, potential entrepreneurial revival, and *excesses in public spending.*

He announced in the Commons a few weeks ago that he would make this tour before taking his initial broad decisions on matters such as regional policy, selective industrial aid, shipbuilding closures, and the National Enterprise Board.

He has paid 24-hour visits to Glasgow, the North-East and North-West. His stops included breakfast with Cammell Laird *management* and a visit to the night shift at a Northern Engineering Industries' factory at Newcastle-upon-Tyne. Days have often started at about 7 am and finished near midnight.

"There are only 24 hours in *a day and I want to see as much* as I can, so I have filled the couple of hours between dinner and bedtime by coming here," he told a reporter, who suggested the night shift visit was "a gimmick" reminiscent of Sir *Keith's* predecessor, Mr. Anthony Wedgwood Benn. Benn visited one of his worker co-ops in the middle of the night.

Sir Keith finished the tour at the weekend in the North-East (a trip to Wales planned for today has been cancelled). He left with mixed feelings and many unanswered *questions.* He intends to return to the regions for longer tours during the Parliamentary summer recess.

As he completed the tour he told me: "I have found a fairly *widespread* assumption in the country that jobs come from the Government—yet in precisely the same areas I've met impressive examples of the successful entrepreneur. When people first talk, all their emphasis is about Government, Government, Government. But in the dialogue that follows, there is a ready acceptance of the role in the economy of the new and expanding business as well as the preserved business."

Sir Keith's intense inquiring style when conducting meetings quite often pulls people out of their prepared speeches and into some acceptance of his ideas. In a manner suitable to the "guru" of the Government, he draws up an instant agenda whenever possible of main subjects to be discussed. He then launches into staccato but elegantly polite, questioning as ideas strike him.

At dinner with industrialists and union leaders in Newcastle, he changed seats with his aides during the meal to move round the dozen or so guests. At an electronics factory he examined *in the minutest detail the manu*facturing points of an electric fuse, and looked thoughtful when told that the UK should make its own micro-chips instead of importing them. In another small firm he learned with delight that the two owners had been inspired to re-examine and expansion plan because of the Budget. And in the

> ***❛ No one on the Tory side imagined the tax cuts were a total answer ❜***

Northern Engineering Industries factory *his faith in the poten*tial of workers was restored when he met a re-trained miner doing an impressive semi-skilled job. But he carefully avoided questions about whether the company's future was to be secured with major power station orders.

He feels, obviously sadly, that some areas of Britain do not show the same interest in small firms and enterprise. But, he told me: "I have seen some remarkable operations of all sizes and met some thriving self-confident world-class entrepreneurs with all sizes of businesses."

He constantly confronts those *he meets* with the question of how to "release entrepreneurial talent" and acknowledges that the Budget's innovations will not be enough. "No-one on the Tory side imagined the tax cuts were a total answer," he said.

"There must also be a curbing of excessive safeguards which Governments have built into the framework of law and regulations — for example, through the Employment Protection Act, building and planning regulations, and maybe the health and safety regulations too. All these are indispensable measures, but there may be overkill in their design or application. So, after the tax, we must prune this overkill and also encourage innovation through our public purchasing policies."

While such initiatives should encourage existing businessmen, there would still be the more *difficult* problem of "uncovering and releasing other entrepreneurial talent that is potentially around." Ideas Sir Keith discussed in the North-East included easing the way for university, polytechnic and technical college staff to become part-time local businessmen. He talked about the possible need for more local merchant banking facilities and whether local councils should be able to provide extensive risk capital to small firms. He also discussed means of coping with youth unemployment. The plight of shipbuilding was in everyone's mind, but Sir Keith gave little hope to those who argued for a new North-East Development Agency with state cash to spend as the answer to their overall problems.

There were also debates about whether it was better to bolster ailing labour-intensive businesses like shipbuilding to help semi- and unskilled workers, or to encourage the new entre*preneur* who might well concentrate on skilled and capital intensive employment.

Inevitably, Sir Keith has been criticised on his tour and has sometimes been less than tactful. For example, he told pickets facing a factory closure in Scotland that 90,000 people changed their jobs every week in the UK and offered to send them details in the post. After visiting Clydeside's Govan shipyard, which faces the risk of closure, he was called the "Angel of Death" in the Commons. To that, he answers: "It's more a case of being a putative Santa Claus—the other side of that coin is that if you don't give people things, you're an angel of death."

On his next tours he wants to meet unemployed people. "I haven't been in an employment exchange yet. I haven't met people scanning the boards, but I will." When he does, the people will be met with the same impetuous desire to ask the unexpected question—as happened when Sir Keith arrived at a beautiful small bird sanctuary in the middle of Washington New Town and asked the warden: "Tell me, how do the birds know it is sanctuary?"

Ministers study PLA plea

BY LYNTON McLAINE AND NICK GARNETT

A CALL for a Government-funded rescue package for the insolvent Port of London will be considered by Ministers this week. The move has been heralded as a test case of the Government's approach to declining industries in need of state aid.

A Government rescue is central to the port's five-year corporate plan for survival, which was sent to Mr. Norman Fowler, Transport Minister, on Friday.

The plan includes a proposal for the port to shed financial responsibility for the loss-making Upper Docks, while retaining a minimum force of dockers for cargo-handling.

This would involve Mr. Michael Heseltine, Environment Secretary, who has been asked indirectly in the plan to absorb the Upper *Docks into* a proposed new planning authority for revitalising dockland in East London. Mr. Fowler said last week that providing a transport infrastructure for the area is now a Government priority.

But central to the plan for a move to commercial viability of the port—which lost over £17m last year—is a fundamental restructuring of its finance.

The authority wants the Government to write off at least part of the PLA capital debt of £110m, to pay £35m for manpower cuts already partially achieved, and to make a *further* £10m available to fund this year's Upper Docks losses.

The £35m was promised as a non-repayable grant by Mr. William Rodgers, the former *Transport Secretary,* but it was conditional on the port reaching agreement with trade unions on achieving 1,489 redundancies by June 30 this year.

The PLA has agreed with its unions a second year plan incorporating a target for redundancies during 1979-80 of up to 1,200 employees. This figure includes the 300 to 400 redundancies which the PLA fell short of in the 1978-79 target.

The same agreement includes changes in working practices, including working flexibility and commitments from the unions to continue reviewing working practices with the PLA.

This second year plan has been formally agreed with six of the PLA's seven big unions. The Stevedores and Dockers' Union withdrew from the talks in a dispute over severance payments.

Esso puts 6p a gallon on four-star

Financial Times Reporter

ESSO HAS become the first oil company to put up prices in the wake of the Organisation of Petroleum Exporting Countries' price rise decision last week.

Esso's increases, in force from today, are likely to mean an average increase of 6p a gallon for four-star petrol (including Value Added Tax) at the pump, reflecting a 5p a gallon increase in the wholesale price. The wholesale prices of heating and fuel oils *will go up by 5.7p to 5.9p* a gallon.

At least two other major oil companies are expected to follow suit later this week. Esso said at the weekend that the rises reflect the significant upward movement in crude oil prices since May 25, when Esso last raised its across-the-barrel prices.

Townsend Thoresen, the ferry company, said yesterday it is introducing surcharges on vehicle fares for Continental routes due to escalating fuel costs. Surcharges will apply on bookings accepted on and after July 7, 1979. Fares for passengers, coaches *and solo motor cycles* remain unaltered.

Increases on brochure prices for each crossing are £2 per vehicle on Dover services to Calais and Zeebrugge and £4 on other routes—Felixstowe to Rotterdam (Europoort) and Zeebrugge and Portsmouth/Southampton to Le Havre and Cherbourg.

OBITUARY

Sir Norman Kipping

SIR NORMAN KIPPING, former director-general of the Federation of British Industry, has died, aged 78.

As the chief executive of the *federation from* 1946-65 Sir Norman was a leading policy-maker in the regeneration of British industry in the post-war years. As controls were relinquished and dialogues developed between the FBI, the government, and the unions, he led many delegations of industrialists into discussions at Whitehall and 10 Downing Street.

He was also one of the architects of the more embracing employers' organisation, the Confederation of British Industry, and he remained in charge at the Tothill Street headquarters until the confederation was brought into being to *replace the FBI.*

Sir Norman's business career began as a graduate engineer with the International Western Electric Company. Later he went into management with Standard Telephones and Cables. During the 1939-45 war he served at the Ministry of Production before becoming an under-secretary at the Board of Trade.

He was a director of British Overseas Fairs from the formation of the company in 1953.

Scramble for gas heating

PEOPLE ARE "scrambling" to have gas central heating installed before oil price rises hit next winter's bills, the Gas Council said yesterday.

Areas which do not have gas are being surveyed to see if the likely demand would justify laying on supplies.

Gas mains are being laid to many edge-of-town estates now without gas. These were often built in the 1950s and 1960s when there was a vogue for all-electric homes.

Gas-fired central heating accounts for 92 per cent of systems now being installed.

Pressure on Tories to tighten controls on tobacco adverts

BY PAUL TAYLOR

TIGHTER RESTRICTIONS on tobacco advertisements are to be sought by the Government when it starts negotiations with tobacco companies on a renewed voluntary advertising agreement later this year.

The present agreement, which ends in March, includes restrictions on the style of tobacco advertising and bans cigarettes advertisements on television.

However, the Government is coming under increasing pressure to tighten up this *voluntary* code. Last week delegates to the British Medical Association's annual representative meeting in Liverpool called on the Government to take urgent action aimed at curbing smoking and drinking.

Delegates agreed a seven-point plan which specifically included a call for tighter controls over cigar advertisements on television, which are not covered by *the voluntary agreement.*

The association's hard-line approach to tobacco advertising follows a call from the World Health Organisation, which last month published a report calling for tighter controls over tobacco advertisements.

Such arguments are likely to find favour with Mr. Patrick Jenkin, Social Services Secretary.

The *tobacco industry says* that there is no proven correlation between tobacco advertisements and overall tobacco consumption and, therefore, that further restrictions on advertising are unnecessary.

Nevertheless, Sir George Young, Parliamentary Under-Secretary of State at the Health Department, at a conference in Stockholm, said he totally rejected this argument.

While the Government would prefer to see the voluntary code strengthened it is also thought to be prepared to legislate if necessary.

Among the possible restrictions are further restrictions on newspaper, magazine and poster advertisements and a more toughly worded health warning on cigarette packets and in advertisements.

Construction industry 'needs hard marketing'

BY MICHAEL CASSELL

THE CONSTRUCTION industry should take urgent action to stimulate demand for its products and services in the face of a decade of slow growth, says an Institute of Marketing report.

The institute's Construction Industry Marketing Group has prepared a 10-year forecast on the sector's prospects. The outlook raises "some alarm."

"An overall growth rate of less than 1 per cent per annum can only mean that the construction industry will account for a declining proportion of the gross national product, a fact that bodes ill for the future industrial capacity of this country," says the group's report.

According to the group, the construction industry should adopt measures which raise demand. The forecasts suggest that public sector housing output will remain low, while private sector activity should recover slowly during the next decade. The upturn is likely to be at a higher rate in the first five years. Repair and maintenance work is expected to boom, showing a growth rate more than eight times higher than that for new work.

On employment and productivity, the forecasts state that increased mechanism and off-site prefabrications should improve the industry's productivity—a trend likely to be enhanced by the lack of skilled labour.

New London houses reach £100,000 level

Financial Times Reporter

THE ERA of the £100,000 speculatively built house has arrived in London, according to estate agent Bernard Thorpe and Partners.

The firm's quarterly survey of property trends published today says: "There are now several developments on the edge of the Greater London belt where this extremely high figure is now being paid." First-time home buyers are finding it almost impossible to obtain houses in any of London's 32 boroughs.

The survey shows that land prices across the country are still rising rapidly, although "much of the steam is likely to go out of the housing market as a result of the Budget proposals." The firm forecasts that mortgage rates will soon rise again, possibly to 12½ per cent.

Strength of sterling worries exporters

BY LORNE BARLING

THE STRENGTH of sterling is causing renewed anxiety over margins and new orders among exporters, particularly those selling in North America.

In industries, such as textiles, where margins have already been under pressure due to international competition, there is serious concern.

But many companies, particularly those exporting higher value goods, think the strength of sterling will create problems only until the consequently lower raw material costs work through the economy.

Some companies still believe their greatest obstacle is rapid fluctuation of currencies, and would welcome a stable sterling value, even a high one.

Carpet and pottery manufacturers, with large export *markets in North America,* have suffered badly.

Courtaulds, which recently estimated that last year's profits would have been £20m higher but for the disparity between costs and exchange rate movements, is facing new problems.

Because of the weakness of the U.S. dollar, American textile and fibre producers, which also have the advantage of cheaper feedstocks, are now very competitive in European markets.

Other sectors seen as particularly vulnerable to exchange rate problems are clothing, footwear, consumer electronics and some light engineering products.

According to Lord Limerick, chairman of the British Overseas Trade Board, UK wage inflation and its effect on costs are as important as sterling's value.

"It is price sensitive products, not quality goods, which suffer most under these conditions," he said, urging companies to upgrade their products.

He pointed out that West Germany had proved over a number of years that exports need not be inhibited by a strong currency, as long as quality, design and delivery were assured.

The sectors of British industry considered least likely to be affected by sterling are heavy engineering and capital goods, international construction, and consultancy services.

Mr. John Nott, Secretary for Trade, has repeatedly told companies that North Sea oil will cause sterling to remain strong for some time to come, and that the Government is unlikely to try lowering its value artificially.

MPs in call for citizens' band radio

THE GOVERNMENT is coming under renewed pressure to allocate a waveband for two-way radio sets used by the public.

A back-bench committee, representing both parties, is hoping *to meet Mr. William Whitelaw,* the Home Secretary, shortly to press the claims of citizens' band radio.

The idea has so far been resisted for fears om irresponsible and possible criminal use of the airwaves and radio interference if too many private sets were operated.

Book sales record

BOOK PUBLISHING sales *topped a record £500m last year,* despite a fall in export sales.

Exports, which have steadily declined as a proportion of total sales since 1974 when they reached 42.4 per cent, were 36.1 per cent of the total last year. But the figures understate the real performance of British publishing abroad since many bigger publishers have launched foreign subsidiaries, according to a survey of 165 book companies by Jordans.

Book Publishing. Jordans, Jordan House, Brunswick Place, London N1 6EE.

'Think-tank' move

AIMS For Freedom and Enterprise, the free enterprise propagandist organisation, is to set up its own "think tank," consisting of industrialists, economists, and academics, as part of a new campaign, Operation-Expansion Britain. Its members will initiate "ideas for the Government, industry, and the trade unions to get Britain moving."

The two members announced so far are Mr. Martin Grafton, retired director-general of the National Federation of Building Trades Employers, and Professor Donald Denman, former professor of Land Economy at Cambridge University.

Fringe benefits

FRINGE BENEFITS for staffs are estimated at a third of their annual salary, according to a survey prepared by the Statistical Services Division of the Alfred Marks Bureau. It was compiled from a sample of more than 300 companies employing more than 80,000 people.

**Fringe benefits for Office Staff. £30. Statistical Services Division, Alfred Marks Bureau.*

Poor UK productivity main topic at NEDC

BY HAZEL DUFFY, INDUSTRIAL CORRESPONDENT

BRITAIN'S POOR productivity—witnessed by the fact that in the decade to 1977 Britain's productivity growth was below that of any other major manufacturing country except the U.S.—will be the main topic for discussion at a National Economic Development Council meeting on Wednesday.

A paper to be submitted by Mr. Geoffrey Chandler, director general of the National Economic Development Office, will give Ministers an opportunity to approach the subject with union members of NEDC, perhaps opening the way for more specific discussion at a later date.

The TUC obviously has to tread warily on the subject with its members, although there is agreement that productivity is too low.

The paper covers *manufacturing* productivity, emphasising that there is no single cause for British industry's poor record.

The problems include short production runs, inadequate design, insufficient marketing and industrial relations—the sort of non-price factors frequently identified in the sector working parties as a barrier to competitiveness.

Poor productivity does not apply, however, right across manufacturing history. The paper draws attention to the fact that performance varies widely between companies in the same sector, with those at the top end being the equal of in the world.

This offers most hope for those making efforts to improve the performance of companies lower down the scale.

The council will also be given an updated report on skill shortages in the engineering industry. A joint NEDO/Manpower Services Commission report points out that the shortage is not a problem throughout the industry, but many engineering companies are finding it difficult to recruit sufficient skilled manpower.

While the number of unemployed has changed little, the paper gives an example of toolmakers in the South East, where the position has changed over three years from that of two unemployed for every vacancy being registered, to that of one unemployed for every three notified vacancies.

'Oil revenues could cut public sector borrowing'

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

THE RAPID build-up of North Sea tax revenues over the next few years makes possible a substantial reduction in public sector borrowing and a transformation of institutional investment patterns, according to City stockbrokers L. Messel and Co.

In the firm's financial analysis it is argued that an essential pre-condition for these changes is that the tax revenues from North Sea oil are used to reduce borrowing rather than for some other purpose.

"The Government could publicly state its commitment to this objective by announcing a medium-term financial plan, with targets for public sector borrowing and money supply growth over the next five years."

The brokers estimate that North Sea tax revenues could rise, on plausible assumptions about prices and production, from roughly £600m in 1978-79 to £6.1bn in 1983-84.

This *would make it possible* for public sector borrowing to be cut from £9.2bn in 1978-79 to £3.1bn in 1983-84 without increasing the net tax burden as long as a firm grip is maintained on public expenditure.

This shift would allow the rate of growth of the money supply to be lowered to 5 per cent in 1983-84, consistent with the goal of bringing inflation down to 5 per cent by 1983.

At the same time inflows into pension funds and insurance companies may rise from £8.3bn in 1978-79 to nearly £14bn by 1983-84. "With the supply of gilt-edged stock choked off, radical adjustment of investment patterns would be inevitable. New issues of debentures and loan stocks would revive, while outward portfolio investment could be substantial following the easing of exchange controls."

● NEWS ANALYSIS — IRON AND STEEL FOUNDERS

No time for taking a relaxed view

BY ROY HODSON

THE IRON and steel founders are living proof that the threat of imminent execution sharpens the mind wonderfully.

For years the industry has been taking a relaxed view of its future as the demand for castings *declined steadily.* Managers comforted themselves with notions about short-term market cycles and their ability to survive such set-backs. They believed that the British automotive industry—its biggest customer for castings—must one day achieve a spectacular revival in output. Also, that if more foundries fail "It will be the chap down the road, not me."

But now the *founders are los*inf their faith in a revival in demand for automotive parts, and are becoming less certain of their individual abilities to survive.

They are, now, showing a willingness to analyse facts and forecasts and they do not like what they find. Confidence in future growth has virtually disappeared and the industry is alive with crisis plans, discussions about the prospects for Government or even EEC rescues, and rumours of impending foundry closures.

Mr. Derek Farrant, a director of the Council of Ironfoundry *Associations,* has given the strongest warning yet, from a leader of the industry.

More foundries would be forced out of business by market pressures, he told the British Institute of Foundrymen conference which ended at the weekend. The danger was that they might drag others down with them.

"They will do this because in attempting to survive they will indulge in the "founder's folly" of price cutting. Better by far *to make a solemn appraisal of* prospects now while there are still some assets."

Small foundries are going to be particularly vulnerable to a squeeze. The Council of Ironfoundry Associations is urging all members to put an appraisal of prospects at the head of its next Board meeting agenda.

The council is not alone in injecting a sense of urgency into considering the state of the *industry. A consultants'* report for the foundries economic development committee ("little neddy") of the National Economic Development Office shows that the numbers of small foundries and their tonnages are continuing to fall dramatically.

If foundries are to be closed on a scale sufficient to balance estimated future demand with capacity, the workforce will have to be cut by about 25,000 over the *next few years* to under 100,000. Proposals for a Government-assisted rescue scheme are likely to be made by the foundry companies when the foundries "little neddy" meets on July 25. Initial opposition is certain from the unions who will want to be sure, before agreeing to a closures programme and job losses, that it is not just a recipe for sucking in imports of castings.

However, the demand forecasts look gloomy for both iron *and steel castings. The forecast* now circulating in the industry is that demand for British-made iron castings will fall by a further 300,000 tonnes by the mid-1980s to a level of only 2.4m tonnes a year. The steel foundries deal with much lower tonnage figures but they also foresee continued stagnation at best, or a further decline in demand at worst.

The number of big foundries *handling castings in Britain* has increased modestly during the last 20 years from 60 to 71. But the increase in tonnage handled by the big foundries has been insignificant: It has grown from just under 2m tonnes a year in 1957 to just over 2m tonnes a year now.

Among the medium-sized iron foundries, handling between 2,000 and 10,000 tonnes a year, the number has dwindled from 260 to 170 during the 20 years.

Their tonnage has fallen from 1.1m tonnes a year to 700,000 tonnes a year.

The tonnage handled by the small foundries of under 2,000 tonnes annual capacity has fallen by more than half during the 20 years and stands at 350,000 tonnes a year. The number of those small foundries has fallen from 1,400 to fewer than 500.

The industry view is that *there is at best a limited future* for the small foundries, and that, if left to their own devices, they could disappear by the late 1980s. But the studies being appraised by the industry and the industry-government investigators indicate that the position is complicated. It appears that some small foundries which are below the minimum size generally regarded as viable are operating both efficiently and *profitably.* Such small businesses survive by knowing their costs, knowing their markets, and delivering promptly.

The special position of such foundries and the contribution they *undoubtedly make in local* industrial activity in such areas as the Midlands and Sheffield will have to be taken into account when "broad-brush" schemes for rationalising foundry output in Britain are being considered.

Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

● ENERGY

Solar plants get the backing

WORLD BANK, acting as the executive agency for the United Nations Development Programme (UNDP), has appointed Sir William Halcrow and Partners, UK consulting engineers and architects, as principal consultants on an 18-month project to test and demonstrate small-scale solar-powered pumping systems for use in irrigation in developing countries, starting July 1, 1979.

Halcrow will carry out the project in association with the Intermediate Technology Development Group (ITDG) of London which has been in the forefront of thought and action directed towards the promotion of technologies appropriate to the technical, economic and social needs of the developing world.

The project team has been formed jointly from the staff of Halcrow and ITDG through a management advisory group; arrangements have been made to mobilise the advice and facilities of British universities, organisations and individuals with specialised experience in solar-powered pumping technologies to assist the project team in their work.

An integral part of the project is the active participation of higher technical organisations or research institutions in the developing countries. At present India, Mali, the Philippines and the Sudan have agreed to host the project.

Objectives of the present project are to demonstrate the practical application of solar energy technology and components for small-scale irrigation pumping in developing countries, and determine the feasibility of the manufacture of suitable solar powered pumping systems or components in developing countries.

By concentrating on small-scale systems, it is planned to identify equipment appropriate to the needs of the millions of family farms and smallholdings in developing countries. After appraising the present state of solar powered pumping technology, the consultants will arrange for approved systems to be tested, and evaluated overseas in typical environments.

Concurrent with overseas field trials, various systems and components will also be subjected to a programme of controlled testing in suitable laboratories, to check the durability and performance of vital units such as solar collectors, pumps, electrical components and mechanical linkages.

Consultants will evaluate both solar-thermal systems, which utilise the sun's heat to power a small engine which in turn drives a pump, and also photovoltaic systems incorporating solar cells which convert light into electrical power for driving a pump. Both types have advantages and disadvantages and these studies will be needed to determine whether one system has, on balance, an overall advantage and where further development work is needed to improve existing systems.

Immediate value of the project to Halcrow is put at £400,000, covering the first 18 months' work. But after the first evaluation, another two or more years' work will be required to select equipment and processes.

Sir William Halcrow, Vineyard House, 44 Brook Green, London W6 7BY. 01-603 3377.

Exxon claim query

A CLAIM made by Exxon Enterprises at the time of the first announcement (in May) of the proposed takeover by Exxon Corporation of Reliance Electric in the U.S.—that a breakthrough had been made which would allow induction motors to be run at variable frequency and therefore speed, saving perhaps a million barrels of oil a day in the 1990s—has been questioned by a British company, Brentford Electric, which points out that it has been making such equipment for some years.

An equipment was demonstrated by Brentford at its Crawley plant in February, 1977—and the company is convinced that the principles and advantages are the same as those referred to by Exxon six weeks ago. It has, in fact, just despatched such equipment to Zambia for efficient close control of copper mine belts.

It has been possible, but not necessarily practical and economical to rectify mains a.c. to direct current and use this to generate a variable a.c. to run an induction motor, for many years.

It is only with the advent of semiconductor switching devices such as the thyristor that such systems have become viable.

Brentford technical director Mr. M. Fry points out that in any case the energy saving comes in terms of how the system is applied rather than in the system itself.

For example, in changing the pumping rate of fluids in pipes, large a.c. motors are used and in the absence of modern controls the flow itself is throttled mechanically, the pump and motor continuing to run at normal speed, the unused energy being dissipated as heat.

Much of the work in this area is now in terms of faster acting semiconductor devices in the switching circuits that deal with the generation of variable frequency a.c. Higher motor speeds can then be produced so that some of the very high speed applications in textiles and machine tools will then come within the scope of the technique.

Using newer semiconductor devices, Brentford expects to soon be able to consider systems at up to 60,000 rpm.

Brentford is at Manor Royal, Crawley RH10 2QY. 0293 27755.

Safer switch outlet

ALL-BRITISH—in design and manufacture—is an interlocked switch socket outlet unit which, claims the maker, is the first metal-clad one made at present in the UK.

These units are produced in 16 and 32 amp ratings in three-, four- and five-pin arrangements for 110-130 volt, 220-240 volt and 380-415 volt supplies with colour coded hinged socket cover flaps in yellow, blue and red, respectively, from Lewden Metal Products, Argall Avenue, London, E10 (01-539 0233).

The switch is mechanically interlocked with the socket and cannot be switched on until the correct plug is inserted; when the switch is on, the plug cannot be withdrawn until the switch is returned to the off position, thus ensuring that it cannot be withdrawn on load.

● SERVICES

Advice on maps and their use

FERRANTI Cetec Graphics can offer a comprehensive cartographic consultancy service to project directors in mapping organisations, hydrographic and cadastral survey agencies, as well as central and local government planning departments.

The service aims to help the project director establish the feasibility and economic viability of introducing an automated cartographic system into his field of operation. Consultancy by an experienced professional organisation considerably reduces the need for an initial internal evaluation, and identifies the shortcomings as well as the benefits of an automated system to the individual client. A subsequent feasibility study would then assist the project director in analysing his particular requirements and providing the best solution to meet those requirements within a predictable timescale.

Further from Automated Cartography Department, Ferranti Cetec Graphics, Ferry Road, Edinburgh, EH5 2XS. 031-343 2171.

● ACCOUNTING

Watches how the pints are going down

PUBLIC-HOUSE stocktaking will never be the same again with the introduction of the first "computer in a briefcase" developed jointly by Data Logic and Allied Breweries.

Microframe 1 weighs only 10 kilos but is a complete computer with a processor, four-inch video display unit, keyboard, floppy disc and printer.

Three test models are being put through their paces before each of the six Allied beer division companies operating managed pubs—Ind Coope, Ind Coope West, Ind Coope Scotland, Ansells, Joshua Tetley and Tetley Walker—are offered the opportunity to order production models. Together these companies control some 2,250 managed pubs throughout the UK.

Data Logic will be marketing the new system for other applications with a typical cost in the region of £3,000 per unit for bulk orders. Orders have already been taken for Microframe variants and a development royalty will be paid to Allied Breweries on each Microframe sold.

It offers a number of advantages over the present methods where the stocktaker has to read through sheafs of sales and stock data. Instead he will have the minimum of written material—plus a floppy disc containing the equivalent of 20 pages of typewritten notes.

At the touch of a button the stocktaker is able to see on his screen the essential details of the last stock-check, the amount of beers, wines, spirits, soft drinks and tobacco ordered since then, the length of time the manager's current stock is likely to last . . . and a figure relating to the gross profitability of the pub.

Data Logic, 29 Marylebone Road, London, N.W.1. 01-486 7288.

● MATERIALS

Bowater boon in the oven

ADDING TO its established range of foil, board and paper products, is "ovenable" board, informs Bowater, French Street, Sunbury-on-Thames (09327 85272), which has already made a considerable impact in the U.S. for catering disposables for domestic and commercial microwave ovens.

Containers made of the polyester lined board have also been used successfully in conventional gas and electric installations, says the company, because of their energy usage and good handling characteristics.

Seven different profiles are presently testing market reaction.

● ELECTRONICS

Ranco buys into technology

YET ANOTHER company with an established background in electro-mechanical engineering has had to come to terms with the impact of electronics on its product viability.

To ensure that it is in the right position to stay in all segments of the heating, ventilating, vending, refrigeration and automotive controls OEM markets Ranco, the $142m turnover U.S. based multinational has just made acquisitions on both sides of the Atlantic: Teccor of Dallas, Texas, which makes power semiconductors and controls, and Tervin Development Company of Pangbourne, Berks, which designs and manufactures electronic controls.

These companies are now being integrated with Ranco's other activities in the U.S., UK (in Plymouth and Wales where 1,500 people are employed) and in Germany, Italy, Spain and France.

The group makes 75,000 controls a day (over half of them in Plymouth) but on the sensor and intelligent control side of the market has met with increasing demands to supply electronics based products.

In the sensing field attention has been shifting (in a somewhat conservative market) from purely mechanical (bi-metals for example) through hybrid systems to solid state (thermistors), power switching has shifted from relays to triacs and power diodes, while in data manipulation (itself a recent concept in this kind of control) technologies have graduated from discrete components to very large scale integration.

In the production of mechanical action however (valve operation for example) electromechanical and similar technologies will endure, albeit surrounded by electronic controls.

In its new form, Ranco plans to succeed in all these areas together with new ones such as engine control.

More from Southway Drive, Plymouth, PL6 6QT (0752 777166).

Extracts or adds heat

SOLID STATE thermoelectric devices based on the Peltier effect, made by Marlow Industries Inc. of Texas, are available from The Hymatic Engineering Company, Glover Street, Redditch, Worcs., B98 7BQ (Redditch 339622).

Described as "thermoelectric heat pumps," the devices range in size from about 4 mm square up to several square centimetres and can cope with heat loads from a few milliwatts up to 100 watts. A single stage device will produce a temperature difference between opposite faces of up to 45 degrees C, while multistage units will produce even greater heating or cooling.

Control is also possible: a thermistor can be mounted on the controlled side of the "pump" to provide temperature feedback data. Then, via a control circuit positive stabilisation can be achieved by alternate switching of the supply polarity.

Originally used in space and military applications, these devices are now finding application wherever performance is dependent upon accurate control of operating temperature.

Measures thin films

A CHOPPED light source and photodetector device developed by Scientific Products, Eastheath Avenue, Wokingham, Berks RG11 2PW (0734 787348) can monitor the growth of thin films during deposition in vacuum.

The 80 Hz modulated beam is projected into the vacuum chamber and is reflected from, or passes through, a monitor glass upon which evaporation is taking place. The resulting signal is passed through a narrow band filter in the receiver and focused on the detector. Synchronous amplification with the transmitted signal eliminates interference from other light sources, and a chart recorder reads the growth.

Five scale expansions are provided for accurate measurement of small changes in the range, 80 to 100 per cent full scale.

● PROCESSES

Water does the work

MACHINES FOR tank cleaning in food, brewing, soft drinks, process, chemical and paint industries, available from Tofte and Jorgensen UK, 64a High Street, Thornton Heath, Surrey (01 689 2828), are joined by a mini-machine, the Mighty Midget.

This measures 90mm x 35mm, weighs 350 grammes, and has been introduced for cleaning smaller containers.

It works on the reactionary jet principle, the impact of the rotating spray cleans parts of the interior of vessels which would otherwise be inaccessible—the machine can pass readily through the 1½ inch bung hole of a keg or barrel.

Only moving parts are nine stainless steel ball bearings and the head which the bearings support. Operating within the 20-60 psi range, the machine will spray water/detergent at up to 100 degrees C, delivering 30 litres per minute at 50 psi to clean vessels measuring four feet by four feet (about 300 gallons capacity).

Building and Civil Engineering

Fairclough homes in Manchester

FAIRCLOUGH Building, North Western Division, has won contracts worth £5.2m including three major council house modernisation schemes in the Manchester area.

Biggest contract worth £1.8m is for the modernisation of 350 council homes at White Moss, Charleston, Manchester. Under another contract for Manchester City Council—value £800,000—the division will modernise 160 council homes in Blackley.

At Dukinfield, Cheshire, work has begun on improvements to 130 local authority homes on the Thorncliffe Estate, under a £900,000 contract for Tameside Council.

The division is also building a four-storey bedroom block at a Post House hotel at Haydock, for Trust Houses Forte Hotels. Architect for the project, costing £1.6m, is James A. Roberts Associates of Birmingham.

In the meantime, Fairclough is offering ready-to-occupy hotel bedroom extensions complete with bathrooms en suite and all services, furniture and fittings, under its "Add-a-Bloc" system.

Based on mass-produced, precast concrete wall and floor panels, erected on site on a raft type foundation, the new design and build package is substantially cheaper than conventional methods of extending hotels, and considerably faster—Fairclough quotes an average of 26 weeks for a two-storey, 24-room block.

The design does not incorporate any revolutionary methods, but simply applies proven building techniques to well-tried hotel layouts, in a way that minimises site construction time and problems, and subsequent maintenance and running costs.

The first such unit has just opened at the George Hotel, Swaffham, Norfolk. The 16-bedroom, two storey extension was built by the East Anglian Division of Fairclough Building for Grand Metropolitan County Hotels in only 23 working weeks, despite the appalling winter weather during much of the project.

Laing wins five large awards

MODERNISATION OF South of Scotland's Electricity Board main headquarters in Cathcart, Glasgow, is to start this month under a £4.5m contract awarded to Laing Scotland. The four-storey building will be stripped out and refitted to provide modern, fully air-conditioned offices. By infilling the existing lightwell, the usable space within the building will be increased by almost 30 per cent.

Housing contracts worth a total of more than £8m, to provide homes in Plymouth, Devon and Newport, Gwent, have been awarded to the company's south west region office.

In Spain, Laing SA is building four schools for a total of more than 3,000 pupils under two separate contracts, together valued at £1.8m, awarded by the Spanish Ministry of Education and Science.

Repairs and improvements to the Manchester Woolworth store which was badly damaged by fire in May, are the subject of a £1.3m contract which was *awarded soon after the blaze had* occurred and the company started work on clearing the debris within days.

In Carlisle, £1m worth of work is for new elderly persons flats and pre-war house rehabilitation.

Tawse takes high road

SCOTTISH Development Department has awarded a contract valued at £3.95m to William Tawse, civil engineering contractors, of Aberdeen, for the construction of 6 km of dual carriageway road between Tore and Charleston on the Black Isle, Ross-shire.

This section takes the new A9 road from the northern end of Kessock Bridge towards the Cromarty Firth. Work has started and is scheduled for completion in two years.

£40m tower plan for Abu Dhabi

THE NEXT stages of the design and construction of the proposed Abu Dhabi Tourist Tower have been discussed in Abu Dhabi between officials of the Public Works Department and representatives of the successful group chosen to implement, design and supervise construction.

Covell Matthews Partnership International (architects and planning consultants); Freeman Fox International (structural and civil engineers); and Guthrie and Partners (quantity surveyors), form this group.

In March, 1978, the Minister of Public Works invited designs, by competition, for a tourist tower to be built some 500 metres off-shore. It was required *that there be a rotating* restaurant, telecommunications facilities and ship guidance installations.

Covell Matthews, in its successful design, proposed a 210-metre-high tower surmounted by an aerial which will bring the overall height to 255 metres.

When constructed, the tower will be one of the highest man-made structures in the world.

Building time is put at about two and a half years and the cost at between £30m and £40m. Target date for completion is 1982-83.

Dock study in Libya

OFFSHORE SITE investigations for marine works at Ras Lanuf in Libya is to be carried out by Raymond International.

A jackup platform is being brought in from the United States to carry out the work, which will be under the direction of consulting engineers Rendell Palmer and Tritton.

Raymond test-boring crews have been located in the Middle East for several years and the group has done a great deal of investigative work for foundation construction on land at Ras Lanuf, where it co-ordinated the work of a multi-national team.

The team included companies with international reputations in geotechnical engineering and in topographical surveying.

Ras Lanuf lies on the Mediterranean, west of Benghazi, on the site of the "Marble Arch" air field of the Second World War. Until recently desert country, it is planned for development as a new township based on an ethylene complex and petro-chemical refinery to be built by the National Oil Corporation of Libya.

Consultants for the project are Stone and Webster Engineering.

Reservoir in Nigeria

WORTH £36m a contract recently started by Wimpey Nigeria is for the construction of a 270m cubic metre reservoir. The Ogun Oshun River Basin Development Authority has awarded the work which is being financed by loans totalling $75m provided by a group of international banks.

These loans include a major element of ECGD guaranteed finance primarily in support of the UK exports involved in the project.

At home, the Scottish division of Wimpey Asphalt has won a contract valued at approximately £1.5m from the British Airports Authority for the resurfacing of the main runway at Edinburgh Airport.

Work is due to be completed by November 30 this year.

Further south, work has recently started on a contract awarded by the Co-operative Wholesale Society for a regional distribution centre at Birtley, Co. Durham, valued at approximately £2.6m.

The project consists of a steel framed, 14,300 sq metre building with aluminium-clad walls with Forticrete blockwork.

Witham office of Wimpey has won two contracts jointly valued in excess of £1.5m. Largest of these is for £1.4m for the fitting out and internal structuring of *an existing 12 storey office block* at Westgate House, Harlow, for RHM Management Services, a subsidiary of Rank Hovis McDougal.

The company has also been awarded a second contract for building *work for Sedgewick* Forbes Holdings, at Mayland House.

Two big London office blocks

FARROW (Lovell Group) has been awarded two contracts totalling £2,232,000.

Buckingham Gate Developments is the client for a £1,120,000 seven-storey office block being built at 60-61 Buckingham Gate, London, SW1. The reinforced concrete frame structure will have a raft *foundation* at basement level, involving temporary support of some existing walls. Architect is Chapman Taylor and Partners.

The second contract, also for a seven-storey office building, *is* being carried out for Capital and Counties Property Company at a cost of £1,200,000. Situated at 210 New Kings Road, London, SW6, it will consist of *a* reinforced concrete frame on a piled foundation, with brick infill.

Architect is Turner Lansdowne Holt and Paterson.

Offices for Windsor

HUNTING GATE, in conjunction with Peerland Properties, is developing a £1.25m prestige office in Windsor, Berkshire.

Close to the Thames and adjoining other office buildings in Windsor, the site could appeal to international companies due to its convenience for major motorways and London Airport.

Development will be in Farmyard, off Datchet Road, central Windsor, and comprises more than 9,000 sq ft of air-conditioned three-storey offices.

Architects for the scheme are Elaine Derby and Gordon Badnell, of Marlow, Buckinghamshire, and the appointed contractors are William Hartley and Sons (Wexham).

Dairy on volcano isle

CEMENTATION PROJECTS has a contract worth about £1.4m for the design and construction of an ultra-high temperature (UHT) milk processing plant on St. Vincent, West Indies.

The contract, awarded by the Diamond Dairy Company, includes a long life milk processing system, designed, manufactured and installed by APV International of Crawley, West Sussex as subcontractors.

Cementation Projects, as main contractor, will be responsible for the construction of the factory and administrative offices and for plant installation work.

The commencement of site work in May, which coincided with eruptions of the Soufrière volcano, is proceeding satisfactorily and is scheduled for completion next spring.

Chepstow warehousing

TARMAC CONSTRUCTION has started work on a big new distribution warehouse for the Nestle organisation, at Chepstow, in Gwent, under a £2.6m contract. This building eventually will cover some five-plus acres, the remainder consisting of hard-standing areas, roads and landscaping. Site is the Tarmac Developments Newhouse Farm estate alongside the M4 Motorway.

It is the first building to be started on this estate and it should be in use next summer. Work is being carried out by Tarmac Construction's regional office at Chepstow.

Nestle plans to use the warehouse to centralise distribution operations in the region. The company says the warehouse will be ideally placed alongside the motorway.

Brands such as Nescafe, Crosse and Blackwell and Libby's, will be handled at the centre.

Newhouse Farm is being developed jointly by Tarmac Developments and East Monmouthshire Industrial Holdings (Chepstow). Eventually the estate will offer some 1.5m sq ft of space on a site alongside the north bank of the Severn estuary and next to the Severn Bridge.

Six Fairweather jobs

SIX CONTRACTS awarded to H. Fairweather and Co. have a total value in excess of £2m, and include a £380,000 project for the construction of 23 dwellings at Cowes for the Vectis Housing Society. Another job on the Isle of Wight is at Ryde for Clark Masts which has placed a £140,000 contract for a three-storey office extension.

A warehouse at British Wharf, Lewisham, for London Borough of Lewisham is valued at £600,000; a factory and warehouse unit job at Crewe Gates Industrial Estate for Horizon Developments is valued at £212,000.

Sterile units are being constructed at the North Middlesex Hospital for the North East Thames Regional Health Authority under a £490,000 con*tract*, and work has started on a £½m contract for building shop units in Manchester for Wades Stores.

Bank block in Bahrain

NINE-STOREY building for the Chartered Bank at Manama, Bahrain has been designed by architects Raglan Square and Partners, of London and Bahrain, for construction on the *site of the bank's previous* building.

The new premises will provide 10,150 square metres of banking and office space.

Reinforced concrete construction will be used and the piling contract for this project has been completed.

Carried out by Cementation (Middle East), this piling work involved the construction of 96 bored piles in diameters ranging from 800mm to 1050mm, to depths up to 14 metres.

Holidays in Antilles centre

WESTERMEIJER Group of Arnhem in Holland is to start a major holiday project in the Antillean Island of Saint Maarten, involving an estimated $120m.

This is for the construction of 977 holiday apartments, which are chiefly intended for American tourists and investors. *The project also* includes about 25 shops, a casino, tennis and squash courts, three swimming pools, children's playlots, Indian gardens, various ornamental waters and a pier.

The buildings will be erected by a prefabrication system. The parts (concrete elements and aluminium fronts) will be manufactured in the Netherlands and shipped to Saint Maarten in containers. Construction must be completed in five years.

African dam and road projects

INTERNATIONAL contractor, Royal Volker Stevin, has just landed orders from two African *countries* worth over Fl 100m (£24.6m).

Stevin Construction BV, in partnership with West German contracting firms, Dyckerhoff-Widmann AG and Philipp Holzmann AG is building the Al Ibtissam Dam in Algeria, to be completed in four years.

Roads Nigeria, in which Volker Stevin holds a 40 per cent share, has received an order from the Ministry of *Works and Housing, for* the reconstruction of roads with a total length of 210 km in Sokoto State, Nigeria. The project will be completed in one year.

Peterhead scheme

TRAFALGAR HOUSE Developments has been granted planning permission for a £1.6m scheme at Drummer's Corner, Peterhead, to provide a 45,000 sq ft shopping development comprising a supermarket, two store units and eight shop units with ancillary storage, together with 4,000 sq ft of office accommodation. Construction will start this summer and occupation in mid-1980 is foreseen.

Templetons will be the tenants of the supermarket and negotiations are at an advanced stage for the store and shop units with various national retailers, both in Scotland and elsewhere in the United Kingdom. New premises for Simpsons Garage are being constructed in nearby York Street and this work will start in mid-June.

New plants at Corby

CORBY Development Corporation, which last year doubled standard factory production to 200,000 square feet per year, has been enabled, by a new government grant of £3m for factories, to design and award five contracts for further units in the town.

The new programme covers a total production area of 223,000 square feet for seven standard factories of 20,000 square feet to be built by Jenkins Weir and by *Shanks and McEwan, both* Corby firms. A special factory of 40,000 square feet plus office space is at present under construction for a boat building firm by Miller Buckley Construction of Rugby.

A Tailby of Desborough will set up ten small-unit factories and workshops on the Earlstrees Industries Estate with sizes of 1,000 square feet and 1,500 square feet. A scheme for a flexible factory unit, incorporating office premises for the Corby Business Advisory Bureau, has also been approved and work will start soon at Earlstrees East. This has gone to Wilcon Construction of Northampton.

IN BRIEF

● *Ford main dealer and distributor*, Harold Perry Motors, has awarded Bovis Construction a second building contract, valued at £816,000, for the erection of commercial vehicle workshops, body and paint shops, and offices at Clarke Road, Milton Keynes, Bucks.

● Spinning of the main cables on Humber Bridge was finished last week, except for the extra strands to be added to the short Hessle sidespan. This ends a critical phase in the construction of the world's longest suspension bridge. Preparations for deck erection are now in hand.

● Booker McConnell, the engineering, food processing and shipping conglomerate, has awarded a contract worth £410,000 to Myton to renovate its London headquarters. These occupy 16,000 square metres in *Bucklersbury House, Cannon* Street, and the renovation includes the installation of new services, offices, dining rooms and reception areas, as well as the addition of a new staircase to link two floors. The architects are Zeev Aram and Associates of Long Yard, Lambs Conduit Street, London.

● Walter Lawrence (East Anglia) has been awarded a £260,000 contract to modernise 60 USAF houses at RAF Lakenheath.

● Henry Boot Construction has been awarded a management fee contract for extensive refurbishment at the Architectural Association's premises in Bedford Square, London.

● Two contracts, each worth just over £400,000, have been awarded to Sir Alfred McAlpine and Son (Northern). One is for an advance factory at Deeside Industrial Park, Shotton, for the Welsh Development Agency. At Wigan, McAlpine is to carry out the second phase of an Asda superstore extension for the Associated Dairies Group of Leeds.

● Avon Rubber Company (Bridgend) has established its own contracting and civil engineering department for its range of multipurpose synthetic sports surfaces—and has won several new orders as a result.

● General Motors has ordered from H. H. Robertson a new central warehouse worth close on £1m to be set up at Milton Keynes. It will use 49,000 sq metres of foam/steel panels. The roof units will have epoxy-based surfacing to protect against corrosion of the steel-wall units.

Waterproof coating stops the drips

USED TO REPAIR the top deck of Preston Borough Council's car park in Avenham Avenue, Preston, is Scotchclad System V waterproof deck coating from 3M United Kingdom, PO Box 1, Bracknell, Berks.

The multi-storey park accommodates 560 vehicles and was built *on* a continuous spiral ramp principle in reinforced concrete, the three uppermost levels and adjoining ramps being finished with a resin-based cladding system in November 1974.

During the first winter of its *use, however, cracks appeared* in the upper floor slabs allowing penetration of water which created stains and let dripping water reach vehicles parked below.

Main contractors was approached by the Council for rectification of the problem with the result that repairs have now been effected with the Scotchclad system which comprises a primer and a one-part liquid polyurethane coating, which is applied twice to form a completely waterproof, joint-free, flexible and hardwearing surface.

Application should be made, says the company, to clear, dry surfaces and for remedial jobs, *such as in Preston*, preparatory work also entails scabbling and grinding top roduce a suitably level and regular surface.

UK NEWS

Technicians' strike hits Polaris base on Clyde

BY PHILIP BASSETT, LABOUR STAFF

BRITAIN'S Polaris nuclear submarine base on the Clyde will be hit from today by a strike of key Government technicians over pay.

The Institution of Professional Civil Servants expects the strike by 12 staff will halt operations at the base. The strikers control work on the maintenance and loading of the Polaris nuclear warheads.

Last year, strike action over pay by industrial civil servants caused considerable political embarrassment when it halted the movements of three of Britain's four Polaris submarines from the Clyde base and another base at Rosyth. The navy had to be sent in to free the ships.

Servicemen may again be sent in to counter the technicians' action. But unlike last year, when much of the work taken over by the navy was manual, *the technicians' jobs are highly* skilled. Union officials doubt whether the navy has sufficient trained staff available to step in.

The Ministry of Defence said yesterday it could not gauge the effect of the union's action. Contingency plans were ready to keep the Clyde base operational. There would be no danger to health and safety.

Continuing disruption at Rosyth, Portsmouth and Devonport dockyards from a overtime ban and a work-to-rule is also likely to be intensified by sporadic daily stoppages. The union warned yesterday that dockyard work had been seriously affected by the action of scientists and technicians. A complete closedown of some major installations or even whole yards, was likely this week.

Mr. Bill McCall, the union's general secretary, said the new selective action would have "a *considerable affect.*" It was causing increasing disruption of Government factory laboratory and other specialist work.

Atomic Energy Authority reearch reactors have been forced to halt operations half a day early in every operative period. The re-opening of the Winfrith atomic energy plant in Dorset after an overhaul has been postponed from this week until next month. Publication of Hansard and other Parliamentary papers has also been delayed.

The action is over a claim for increases of 36 to 47 per cent for 40,000 technicians and 10,000 related staff, and for increases for 20,000 scientists to be linked to this year's administration grade settlements.

The Government has offered 16.3 to 24.1 per cent to the technicians, and 20 to 33 per cent to the scientists. The union claims that conditions on the *scientists' offer are unacceptable.*

Scargill move to cut nuclear power plans

MR. ARTHUR SCARGILL, the Yorkshire Miners' President, yesterday called for a "massive campaign" to halt the expansion of Britain's nuclear power programme.

The call came on the eve of the annual conference of the National Union of Mineworkers, meeting in Jersey, where miners representatives will call for a big boost in coal output to 200m tons a year and a halt to pit closures.

Amid reprots that the Government is considering expanding the nuclear programme in the light of the mounting oil crisis Mr. Scargill said: "We think Mrs. Thatcher is taking Britain towards nuclear disaster.

After a meeting of the Yorkshire area delegates—the union's largest grouping—Mr. Scargill said: "We would call on the British people to mount a massive campaign to stop the building of nuclear power stations when we can prove we don't need them, and there is no absence of alternative energy sources."

A motion to be debated this week calls for the Central Electricity Generating Board to be compelled to use coal-fired generators. On pit closures, the NUM executive has already taken a key decision by recommending industrial action in a ballot to the South Wales area against the closure of the Deep Duffryn pit.

A new approach has been made to the National Coal Board to reduce growing UK stocks of medium grade coking coal. It comes from leaders of the National Association of Colliery Overmen Deputies and Shotfirers.

The union, representing nearly 20,000 colliery officials, has expressed its concern at the growth of coking coal stockpiles, particularly in Kent and the northeast.

Earlier union requests that the board sell the coal to power stations because of the continuing recession in the steel industry were rejected, said the union's retiring president Mr. Laurie Wormald. Now, the association has urged the board to blend some of the coking coal with lower quality power station coal, particularly from Midlands pits.

Planners worried about haste

THE ROYAL Town Planning Institute has expressed "deep concern" over the declared intention of Mr. Michael Heseltine, the Environment Secretary, to speed planning controls.

The institute strongly supports Government objectives to provide more homes, but is concerned that "admirable intentions to speed the development control system may lose sight of its purpose of providing a better planned environment."

In a letter to Mr. Heseltine, the institute suggests that effects of planning delays on housing development had been exaggerated. "Concern for housing must be balanced with concern for the environment.

Profit plan starts on Clydebank

By Our Labour Staff

JOHN BROWN Engineering, Clydebank, has started a profit-sharing scheme for its 2,000 staff which it hopes will help it to negotiate a basic pay deal in single figures for the next wage round. A settlement for this group is due in October.

The company paid a 3 per cent bonus, based on average earnings, out of its annual profits, announced at the weekend. The average payment amounted to £150.

Mr. John Mayhew-Sanders, chairman of the John Brown group, said he hoped the scheme would lead to realistic pay bargaining. The profit sharing bonus was a payment for co-operation and would be repeated next year, if profits justified it, he said.

Mr. Graham Strachan, group managing director, said trade union reaction to the scheme had been very promising.

John Brown also introduced an 8 per cent self-financing productivity deal last year while increasing wage rates by 5 per cent, the last Government's pay guideline at the beginning of the 1978-79 wage round.

The company intends making a single-figure offer in current pay talks and will rely on the profit-sharing and productivity schemes to try to make the package acceptable.

Rhine Army teachers strike

THE MINISTRY of Defence was accused yesterday of trying to "blackmail" teachers working with the British Rhine Army in Germany into taking a pay cut or losing their jobs.

The 115,000-strong National Association of Schoolmasters/Union of Women Teachers has ordered its members working in schools operated by the British Forces Education Service in Germany to stop work until the matter is resolved.

About 1,500 teachers are employed with the BFES and 600 of them belong to the union.

CONSUMER CONFIDENCE

Prices gloom in wake of Budget

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE BUDGET appears to have significantly reduced consumer optimism, according to the latest Financial Times survey of *consumer confidence*, published today.

The survey shows a drop of 38 points from May's exceptionally high level of confidence, which resulted mainly from post-election euphoria. The sharp drop in the index—to the lowest level since the economic crisis of late 1976—suggests that the Value Added Tax increases in the Budget out-weighed in consumers' minds the impact of income-tax cuts.

In a special question on what consumers intended to do with their income tax cuts, the survey showed that a higher proportion (16 per cent) than last year (12 per cent) planned to save the extra. Some 46 per cent of the 1,075 consumers surveyed said they intended to spend the greater part of their tax reduction, compared to 49 per cent last year.

A quarter of this year's survey, compared with 23 per cent last year, believed they would get no tax reduction from the Budget. The rest of those questioned did not express a view.

The main part of the survey showed that only 18 per cent of consumers expected conditions to improve. Some 47 per cent thought conditions would worsen. This gives an index of minus 29 per cent. In May, the figures were 28 per cent and 19 per cent respectively, giving a positive index of 9 per cent.

Analysis of the survey shows that rising prices are the main reason for the increase in consumer pessimism, following the VAT increases in the Budget and the Government's forecast that inflation may reach nearly 20 per cent this year. The proportion of pessimistic consumers citing inflation as the main reason for their pessimism nearly doubled from 22 per cent in May to 46 per cent.

Industrial unrest is not seen as a problem by consumers, being cited by only 11 per cent, compared with the 44 per cent who gave this reason in February at the height of the winter

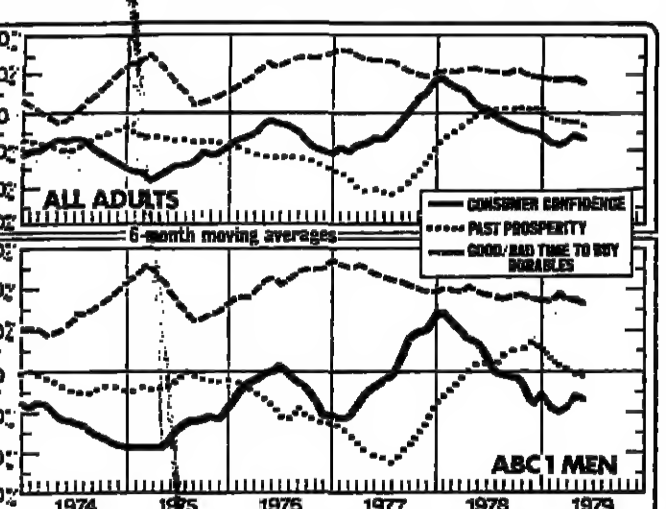
The survey shows that the biggest switch from optimism to pessimism among consumers has come among ABC-1 men—those *in professional* and executive jobs—who stand to gain most from the Budget's income tax cuts. Their consumer confidence index has dropped a dramatic 60 points—from a positive index of 27 per cent to minus 33 per cent in one month. All four social classification sub-groups have dropped from a positive to a negative figure this month.

The abrupt change in consumers' opinions was reflected in the past prosperity index, where the consistent improvement since February has been halted. Some 26 per cent of this month's sample felt their family to be better off than a year ago, while 38 per cent felt their family was worse off. This gives an index of minus 12 per cent, compared with minus 1 per cent last month. The 38 per cent who felt their standard of living was falling was, apart from February's 39 per cent, the highest figure since November, 1977.

The only sub-group where the past prosperity index was positive was the ABCI women grouping. The most dramatic change in past prosperity was seen among C2DE women, who showed a 23 per cent decrease since last month. For the first time in six months the past prosperity index for the under-35s was negative, following a 19 per cent drop since May. Clearly it is this group which feels worst hit by the Budget.

The full weight of the Budget increases on VAT are felt this month in the "time to buy big things for the house" index. For the first time since May, 1975, this index is negative. Even allowing for May's particularly high index of plus-25 per cent—due to pre-Budget spending—the drop of 39 per cent is still a sharp change.

The Financial Times survey of consumer confidence is prepared by the British Market Research Bureau for the Financial Times. A sample of 1,075 adults was interviewed between June 14 and 20.



This week in Parliament

TODAY

COMMONS. Motions on the Northern Ireland Act 1974 (Interim Period Extension) Order, and the Northern Ireland (Emergency Provisions) Act 1978 (Continuance) Order.

LORDS. British Railways (Selby) Bill, third reading. Charging Orders Bill, second reading. Companies Bill, committee stage. Debate on the need for an independent inquiry into the arrangements for handling arriving passengers' baggage at Heathrow Airport.

TOMORROW

COMMONS. Finance Bill, committee stage.

LORDS. Ipswich Port Authority Bill, third reading. Criminal Injuries Compensation Bill, second reading. Law Reform (Miscellaneous Provisions) (Scotland) Bill. Public Records Amendment Bill, second reading. Debate on medical education provision in London.

WEDNESDAY

COMMONS: Finance Bill, committee stage.

LORDS: Debate on threat of a fuel crisis, role of BNOC and importance of developing alternative energy resources. Debate on progress at the UNCTAD conference in Manila.

THURSDAY

COMMONS: Finance Bill, committee. Motion on the St. Vincent Termination of Association Order.

LORDS: Wales Act, 1978 (Repeal) Order, 1979. Debate on the 14th EEC report on Community action in the cultural sector and proposals for a European Economic and Social Policy Research Institute. Debate on policy on admission of overseas students to British universities.

LOCAL AUTHORITY BOND TABLE

Authority (telephone number in parentheses)	Annual gross interest	Interest payable	Minimum sum	Life of bond
	%		£	Year
Redbridge (01-478 3020)	11¾	½-year	200	4-5
Redbridge (01-478 3020)	12¼	½-year	200	6-7
Wrekin (0952 505051)	12¼	annual	1,000	4-5

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
July 3—4	EIA Engineering Exhibition (01-222 2367)	Metropole Centre, Brighton
July 4—6	Unit Load Show (01-908 2122)	Wembley Conference Centre
July 8—12	Autumn Lightshow (0248 88396)	National Exhibition Centre, Birmingham
July 11—28	The Royal Tournament (01-930 6009)	Earls Court
July 23—27	How to sell into the Common Market Exhibition—IMPO EXPO (01-248 4444)	Wembley Conference Centre
July 23—28	Middle East Business Expo '79 (01-580 5816)	Grosvenor House
July 23—27	Impo 79—How to sell into the Common Market Exhibition (01-248 4444)	Wembley Conference Centre
July 25—26	Vandalproofing Exhibition (01-261 8000)	West Centre Hotel, Fulham
July 27—Aug. 1...	British Musical Instrument Trade Fair (01-428 4700)	Olympia
July 29—Aug. 2...	International Gifts Fair (01-855 9201)	Olympia
Aug. 25—Sep. 1...	International Motor Cycle Show (01-741 2156)	Earls Court

OVERSEAS TRADE FAIRS AND EXHIBITIONS

July 2—6	International Exhibition for Opto-Electronic Systems—LASER (01-486 1951)	Munich
July 3—Aug. 1...	Inaugural Trade Fair	Seoul
July 8—13	Summer Home Furnishings Market	Dallas
July 9—12	The National Housewares Exhibition	Chicago
July 16—20	Wood '79—The International Forestry Development, Timber Processing and Wood Working Exhibition	Singapore
July 23—28	International Engineering Exhibition	Melbourne
July 23—27	International Public Works and Municipal Services Exhibition—CIVICON (01-486 1951)	Johannesburg
Aug. 7—11	Horse Show (Dublin 680645)	Dublin
Aug. 13—16	National Hardware Show	Chicago
Aug. 17—26	International Trade Fair (01-486 1951)	Malmo
Aug. 20—Sep. 20	International Fair	Izmir
Aug. 20—24	International Packaging and Food Processing Exhibition—PAKPROCESS (01-486 1951)	Johannesburg
Aug. 29—Sep. 12	Timber and Woodworking Industry Exhibition	Moscow

BUSINESS AND MANAGEMENT CONFERENCES

Current	University of Bradford Management Centre: Group and Personal Effectiveness—Skill with People (Bradford 42299) (until July 6)	Heaton Mount, Bradford
Current	IPM: Practical Negotiation Skills—A workshop in negotiation effectiveness (01-387 2844) (until July 4)	Hemingford Grey
July 2—6	BACIE: Managing Effective Relationships (01-636 5351)	Sackville Hotel, Hove
July 2—13	Brunel Management Programme: Management of Research (Uxbridge 56561)	Uxbridge
July 3	Sheffield City Polytechnic: Uses and Abuses of Computer-Based Training (Sheffield 665274)	Sheffield
July 3—5	Fielden House Productivity Centre: Accounts for Non-Financial Managers (061 445 2426)	Nottingham
July 4	Microcomputer Consultants: Microcomputers '79—The Layman's Guide to Micros in Business (01-247 1939)—postponed until October 18.	Metropole Hotel, Birmingham
July 4	Mobile Training and Exhibitions: Teaching Business Finance in Schools (01-242 3067)	Bowater Conference Centre, London
July 4—5	Campagn Mideast/Arabian Marketing Research: Advertising, Public Relations, Press and Communications in Arabia (0822 3577)	Savoy Hotel, WC1
...July 5—6	ESC: Summer Programme for Finance Directors and Company Accountants (057282 2711)	Portman Hotel, W1
July 8—13	Bradford University: Management Information and Modelling Systems (Bradford 42299)	Bradford
July 9—20	FT/City University course: Financial Management For The Non-Financial Executive (01-236 4382)	The City University
	ASM: Business Law for Directors (01-385 1992)	Piccadilly Hotel, W1
July 10	Centre for Advanced Land Use Studies: Marketing Recreational Facilities (Reading 861101)	Reading University
July 12—14		
July 13—15	Industrial Participation Association: Summer Conference (01-222 0351)	Churchill College Cambridge
July 16—18	MSS: Inventory Management and Control (Worthing 34755)	Worthing
July 17	Institute of Purchasing and Supply: Oil—How serious a crisis? (Ascot 23711)	Grosvenor House Hotel, W1
July 17	IPS: Is there an Oil Crisis? (0990 23711)	Grosvenor House Hotel, W1
July 17—19	ASM: Management of the Drawing Office (01-385 1992)	Piccadilly Hotel, W1
July 17—18	Benn Publications: Machinery, Adding Value and Marketing (01-353 3212)	Singapore
July 18—20	Lloyd's of London Press—BILA London Colloquium 79 (01-353 1000)	University College, London
July 19—20	The *Institute of Metallurgical Technicians*: Heat Treatment—Methods and Media (01-446 2251)	University of Aston
July 20	INCOMTEC: Product Liability—Law and Practice in Britain and Abroad (0276 62677)	Europa Hotel, W1
July 22—27	DIB: Speaking Course Based on Special Industrial Subjects (00441 27671774)	Bagshot, Surrey
July 22—27	CCC: A Practical Guide to Business Law in the UK (01-222 6362)	Queen's College, Cambridge

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Black & Decker image polished for the battle ahead

BY JASON CRISP


Tony McCann, managing director of Black and Decker UK.

BLACK AND DECKER has achieved the seemingly impossible task of dominating the do-it-yourself power tool market and yet gaining a clean bill of health earlier this year from the Price Commission.

The bright yellow covers of the Price Commission report lying in the main reception of Black and Decker's UK headquarters in Maidenhead, Berkshire, are in sharp contrast with the glossy brochures advertising the company's products. Few firms which have been the subject of a Price Commission investigation would be inclined to draw attention to its findings, let alone use it as promotional literature.

But Black and Decker, with 93 per cent of the UK drill market, 87 per cent of integrals (jig-saws and sanders) and 95 per cent of attachments, came through the inquiry with its image untarnished—some might say even that it had been vigorously polished.

In many ways it is a rather unusual company. On first sight it might simply look like a typical, thrusting, aggressive American multinational. What that view belies is that its management style—certainly in this country and Europe—owes much to Robert Appleby, an Englishman who developed Black and Decker in Britain in the 1960s.

Appleby is a central figure in the Black and Decker story. The company's extraordinary strength in Britain and its lesser but sizeable share of the European markets is by common accord attributed mainly to him. Growth outside the U.S. has outstripped expansion at home, reinforcing Black and Decker's position as one of that rare breed of American companies that has greater international than home sales.

Last year, worldwide turnover reached $959.9m, of which just under 45 per cent was in the U.S. The company has 45 subsidiaries around the world, and manufactures in 30 different locations. But the directors do tend to blanch if you call it a multinational—they prefer to call it an international company.

Black and Decker's success in the domestic drill market in the UK dates back to the 1950s when the market was dominated by Wolf, a British company. Although the company had been selling drills in the U.S. since just after the war, it did not seriously challenge the UK market until 1954.

From that time there were three main domestic drills on the UK market, Wolf's Cub, Black and Decker's at the same price, and a higher powered drill from S. and N. Bridges.

Although Wolf began to lose market share to both the other companies, Black and Decker initially suffered from a reputation for poor reliability. By the beginning of 1958, having appeared to have solved its technical problems, it launched a new drill which it began to back with very heavy advertising promotion—the first serious attempt to bring the power drill into the mass domestic market. By the early sixties it was selling over half a million a year, and its competitors were concentrating on higher quality drills with fewer sales.

Since then, of course, Black and Decker itself has moved up market — two speed, then hammer drills and now integrals—but it has always concentrated on high volume, low cost products. The drill market itself is inevitably rather sated now.

Certainly in the UK its high volume low cost position means that it is seemingly indomitable to any incursion by a moderate-sized competitor—which makes the recent UK assault by Rockwell, its major competitor in the U.S., all the more interesting.

Appleby was at the helm of Black and Decker UK through the all important 1960s and was instrumental in developing the company's international side. He rose to be vice-chairman of the parent company second only to Alonzo B Decker. When he retired in 1971 he was accorded a glowing two-page testimonial in the annual report, an unusual accolade for an American, let alone an Englishman.

Much of the present style—and it is fairly uncommon—in which the UK and European subsidiaries of Black and Decker is run is Appleby's legacy. Three strands stand out, not because they are unique—they are not—but because of the lengths to which Black and Decker takes them.

One is the degree of measurement of information—the company has among other things a daily statement of profit and loss; incoming orders and guarantee card returns. The second is the remarkable effort this paternalistic and non-union company puts into employee relations. And the third is a fairly brave pricing system for new products, based on a projected sales level which may take up to two years to achieve.

While strict controls are applied by the UK board it is itself in turn closely monitored both by its European head office and the U.S. head office above that. Yet the individual operating companies have a notable degree of autonomy—a point which is backed by the fact that although Black and Decker's turnover this year will exceed $1bn, its head office staff in Towson, Maryland, totals 40, including secretaries.

Tony McCann, today's managing director of Black and Decker UK, the largest individual subsidiary outside the U.S., stresses that he has a very high degree of autonomy. But it is significant that Francis Lucier, chairman of the main board, said in London earlier this year that although the operating companies were seen as profit centres he did not like the word "autonomous."

Although Black and Decker is a large company by European standards it still "goes for growth" with an almost religious fervour. Its declared target is for sales and net earnings to increase by 15 per cent a year — over the past twenty years sales have grown annually by an average 16.7 per cent, and earnings per share by 14.1 per cent.

With the do-it-yourself boom continuing throughout the world, the company remains confident that it can sustain its ambitious target. Although 1975 was a bad year for Black and Decker — earnings fell by over 20 per cent — a recession is not in itself damaging to the DIY market. Rising labour costs and increasing leisure are the two main driving forces of the market.

Lucier reflects that the slump in 1975 was against the background of a 16 per cent growth in the market. It was caused, he says, by letting inventories get out of control in Europe and also by "a weak link between marketing and manufacturing companies."

But inevitably that slump raises the question: how could a company with such detailed controls allow inventories to get out of hand? With hindsight, McCann says the basic problem had been a lack of planning. 1973-74 had been a boom year and the company had been growing at a very rapid rate—well over 10 per cent — and had just taken on 1,000 people at its factory in Spennymore, County Durham.

McCann says Black and Decker was reluctant to make any redundancies, and production grew while the market did not. Although there were a few redundancies most of the staff reduction (over 600 out of 4,000) occurred through natural wastage over an extended period and through ending evening shifts.

"We are very mindful of our past mistakes during this current boom," admits McCann. One result of this uncomfortable experience has been a tightening of inventory controls.

Television viewers will not be surprised to learn that the UK company spends a high proportion of its revenue on promotion: last year's rate was 5 per cent of the £65m turnover (of which £22m was exported). Most of the promotional budget is allocated in advance to specific products but a fifth is used flexibly in response to a product's flagging sales. It is not uncommon for companies to use the return of guarantee cards as a marketing tool, but Black and Decker makes a particularly detailed analysis; Tony McCann gets a breakdown of returns by product and by region each day.

The company regards the analysis of guarantee cards as a better guide to sales performance than orders, which do not reveal whether the goods are moving from wholesalers' or retailers' shelves. It seems that the company knows immediately a product is beginning to slow, whether in a particular region or throughout the country.

It gives it a very good measurement of the effectiveness of advertising—McCann adds wryly that he can even measure the efficiency of the Post Office.

Black and Decker also devotes an unusual amount of energy to (non-unionised) employee relations. Although two unions—the Amalgamated Union of Engineering Workers (AUEW), and the General and Municipal Workers' Union (GMWU)—have had long-standing recognition claims under Section 11 of the Employment Protection Act for nearly three years, there has not been a ballot of the workforce.

This is because of a failure to agree on who should be balloted—the company says it should be company wide, but the unions want it based on those workers they would wish to represent.

The company claims that when it conducted an independent ballot of the whole workforce two years ago 80 per cent said they did not wish to be represented by unions. The reason most of the skilled craftsmen at B and D hold union membership is apparently to retain the option of moving jobs.

McCann emphasises that wages are high at Black and Decker — "our attitude is to pay as much as we can afford, rather than what we can get away with." The unions seeking a toehold take a more cynical view, that the company is buying off the workforce to keep them out.

Considerable emphasis is laid by the management on communication. Although many companies make this claim it does appear that in Black and Decker's case it is with justification. In addition to employee reports (on the UK company), newsletters and a joint consultative committee, it uses two forms of briefing.

First there is the "cascade" style of briefing through the management structure down to groups of between 10 and 12 on the shop floor. The second is for Tony McCann to talk directly to groups of about 200 employees in the canteen (Black and Decker calls them restaurants; they are single status).

At these direct sessions McCann imparts news—"good or bad, including redundancies"—and answers questions. He reckons to speak in this way to the entire company (3,350 employees) three or four times a year. There are also shopfloor personnel managers for every 200-300 employees.


Roger Taylor

Another sale means another guarantee card will be on its way back to Black and Decker—and the company reckons these cards are a much better measure of sales performance than orders, giving early warning of slow-moving products

To illustrate the level of employee relations he cites an incident earlier this year. At the Spennymore plant, the company's main factory of 500,000 square feet and employing nearly 2000, the heavy winter damaged the roof over the area where the motors are made and where half their machine tools were.

McCann says it meant moving all the equipment and was reckoned to be a three month job by the management. According to McCann, who recounted his stay with some pride, the entire workforce set out about the move with such a will that it was completed in a week and a half. "It was an extraordinary sight," says McCann. The workforce even sent a petition to the management thanking them and the Dutch subsidiary sent 6,000 roses to the Spennymore workers for saving delivery dates. The mind boggles. No doubt the prospect of possible short-time working may have been a powerful incentive.

Not for the first time, Black and Decker is now being challenged in the UK by two sizeable competitors, this time Rockwell (see this page, December 27, 1978) and the Japanese company Makita. Rockwell has been using extensive television advertising and hefty promotional offers in an attempt to emulate its recent success in the U.S. market.

When it entered the UK market in late 1977, its target was to capture a 15 per cent market share within five years. By last Christmas it was already claiming 5 per cent.

Black and Decker's stated view on this latest incursion is cautious but confident. It bases its confidence on two counts—one is that it designs its tools for its specific market and does not impose a product from outside.

For instance a German Black and Decker drill is more powerful, more highly engineered and more expensive than in the UK.

The second point is that its high volume, low cost manufacture will enable it to keep the edge on prices; Black and Decker is cheaper than either Rockwell or Makita.

At the moment there would appear to be plenty of sales for all—if anybody had any doubt about the DIY boom, Black and Decker's latest figures would disprove them. Its UK sales are currently 50 per cent higher than the same time last year of which only 6 per cent is accounted for by price.

The Executive Health column will appear tomorrow.

Business courses

Production management and Human Behaviour, Brunel University. September 3-7. Fee: £300. Details from Management Programme, Brunel University, Uxbridge, Middlesex, UB8 3PH.

The Challenge of the Eighties, Brussels. September 2-6. Details from ESOMAR Central Secretariat, Raadhuisstraat 15, 1016. DB Amsterdam, Netherlands.

The Annual Marketing Plan, Brussels. September 12-14. Details from Management Centre Europe, avenue de Arts 4, B-1040 Brussels, Belgium.

International Management Programme, Henley, Oxfordshire. September 3-28. Details from Administrative Staff College, Greenlands, Henley-on-Thames, Oxfordshire, RG9 3AU.

Financial Control of Research and Development, Bradford. September 18-21. Fee: £165 (single nomination), £135 (two nominations). Details from The Management Centre, Heaton Mount, Keighley Road, Bradford, West Yorkshire, BD9 4JU.

Innovator award

THE CLOSING date for entries to the Innovator of the Year Award, organised by Technical Development Capital, part of the Industrial and Commercial Finance Corporation which channels equity and loan finance into smaller companies, has been extended by two weeks to July 16.

As a result of a high level of late requests for entry forms, it was decided to provide extra time for completion since quality of presentation is a factor in the competition.

LOMBARD

Why the dollar has been weak

BY SAMUEL BRITTAN

THE RECOVERY of the dollar after the U.S. monetary package last November was stage-managed by the central banks; and like all such operations was bound to come to an end if not backed by appropriate domestic measures, which it was not. For it now looks as if the much proclaimed tightening of domestic monetary policy was largely a myth.

Paradoxically, the increase in oil prices could bring a temporary respite to the dollar, if a large enough fraction of the OPEC surplus is initially invested in the U.S., and also if oil purchasers have to buy dollars to meet the Saudi demand for prompter payment. But any respite or recovery will be no more than a temporary interruption of a downward movement without more fundamental changes affecting the demand for or supply of dollars.

In Economic Viewpoint on April 5 I cited some of the reasons why the normal money supply measures much exaggerated the extent of the squeeze, and following the "Shadow Open Market Committee," suggested a look at the monetary base instead. There is now, however, evidence that even this measure understates monetary growth and that there has been no effective monetary slowdown since last November.

Adjust

The point is that the U.S. banking system has—with a private enterprise ingenuity which Friedmanites ought to admire—found ways round the compulsory reserve ratios of the Federal Reserve. Mr. Anthony Boeckh, of the *Bank Credit Analyst* of Montreal, has tried to adjust for these distortions by adding to the conventional figures overnight funds lent to banks by corporations, fixed value mutual funds with free checking facilities and Automatic Transfer Services and Negotiated Orders of Withdrawals on savings balances. With those additional items included, both the narrow "transactions" measure of the money supply and the broader measure have both been rising at annual rates of 11 per cent—showing no deceleration from 1978 and a large increase over previous years. These monetary increases were fed by the $25bn reflux from overseas central banks to the U.S. during the dollar recovery period earlier this year.

Even this level of monetary expansion is not sufficient to finance the rate of inflation, plus real growth, *that the U.S. was* experiencing in the first half of the year. As a result, Mr. Boeckh believes that "monetary policy is probably restrictive enough to slow economic activity, but not to create a sharp enough downturn to bring about a major cyclical turning point in interest rates and inflation." Understandably, he does not share the Administration's belief in a "soft landing," i.e. a major reduction in inflation achieved with only a modest recession or a pause in growth. He fears another run on the dollar which the Administration would try to counter with exchange controls as well as a much stronger monetary squeeze.

Combination

This pessimistic prognosis is supported by a somewhat different type of analysis in the Burns-Robinson *Exchange Rate Outlook* published by the Gower Press. The authors point out that there has been no real depreciation of the dollar, after allowing for international price and productivity differences, since its sharp fall began in late 1977. According to the Outlook, the dollar index will be down to about 81 in about a year, compared with 86½ at the end of May.

U.S. monetary policy faces two crises. First, U.S. bankers have found ways around the reserve ratio requirements of the Federal Reserve. Indeed the number of banks outside the Federal system has been growing. Secondly, the amount of off-shore or Euro-dollars has multiplied to a degree inexplicable by the deficit in any of the sectors of the balance of payments. Indeed the two crises may well be the same; as the use of off-shore dollars has clearly been one of the ways round reserve requirement. The *Morgan Guaranty Survey* has suggested that these distortions would be avoided by confining reserve requirements to demand deposits and abolishing them for time and savings deposits. But this I fear would simply lead to fresh avoidance measures, such as a substitution of time for demand deposits for many purposes. Reform will have to go very much deeper—whether in the way of greater freedom or greater control; and the issue affects the world, not just the U.S.

Injury compensation problems highlighted

THE WEEK IN THE COURTS

BY JUSTINIAN

JUDGES ARE often criticised, unfairly, for appearing to be impervious to defects in the law. True, few judges are willing to tread the reformist path of their colleague, Lord Denning, who *unashamedly* uses the judicial process to achieve radical changes in the law, in order to achieve what he perceives to be justice. Many judges are, however, not so slow to exhort Parliament to do something *about the anomalies and* anachronisms in particular fields of law that cannot be rectified by the courts.

Hence the judgment of Lord Scarman (with which his three colleagues in the House of Lords concurred without demur) in *Lim Poh Choo v. Camden and Islington Area Health Authority (Teaching)* is of great significance in urging the Government to implement at least the major recommendations of the Royal Commission on Civil Liability and Compensation for Personal Injury published in March, 1978.

The course of the litigation following the tragic injuries to Dr. Lim, a young Malaysian psychiatrist working in this country, demonstrates with devastating clarity the problems implicit in our system of compensation for personal injuries.

In 1973 Dr. Lim was admitted to hospital for a minor gynaecological operation. When she was in the recovery room following the operation she suffered cardiac arrest. The consequences were disastrous; a promising career was at a stroke shattered. She became a wreck of a human being, suffering from extensive and irremediable brain damage that has left her only intermittently, and then barely, sentient and totally dependent upon others.

Almost no amount of money could compensate for so tragic a living death. Yet the courts were asked to do their best by way of an award of damages. Liability was admitted just before trial; the health authority accepted that it was liable for the negligence of those on the hospital staff who had treated Dr. Lim negligently in the post-operative period. The writ was issued in September, 1974. In December, 1977, Mr. Justice Bristow, employing the various established heads of damages, awarded Dr. Lim nearly £255,000, an award that was challenged in both the Court of Appeal and the House of Lords.

The course of the litigation exposed two major flaws in our methods of awarding damages. Implicit in our system of compensation for personal injuries is the fact that, unless the parties agree otherwise (and they rarely do) the legal proceedings can yield only a lump sum assessed by the court at the time it gives its judgment. Sooner or later—and too often later rather than sooner because litigants tend to drag their feet in the hope that a settlement of a lump sum will be reached—a court has to make its award of damages. The award, which covers past, present, and future injury and loss, must be of a lump sum.

That sum has to be assessed at the conclusion of the legal process. The award is final; it is not susceptible to review as the future unfolds, substituting the harsh realities of time for the court's once-and-for-all predictions.

Since the court's predictive devices are so inadequate it is likely to get the award of damages wildly wrong. So much of any award in these cases is attributable to future loss and suffering of the injured that the award is bound at best to be either too high or too low. If the former, the family of the injured will get a windfall; if the latter, insult will be added to the injured's feelings (what are left of them) and the family will be left to bear the brunt of looking after their kinsfolk without the solace of adequate compensation.

When Dr. Lim's case was before the Court of Appeal, Lord Denning appeared to think that the law did already provide machinery adaptable to enable the courts to award damages as an interim award, to be varied up and down as the years pass by and the needs of compensation changed. That attractive, even ingenious suggestion found no favour with his two colleagues, and was firmly rejected by the House of Lords. For so radical a reform the change requires the broad brush of legislation. The extent of the reform necessary raises issues of social, economic and financial policy that are scarcely amenable to judicial reform.

A single decision of a court in one piece of litigation is bound to be controversial and will solve at best only the instant problem. A number of factors and interests need to be weighed in the balance, and the law needs to be declared in a comprehensive code by the legislature. Lord Scarman put it graphically in Shakespearean language: "The judge—however wise, creative and imaginative he may be—is 'cabin'd, cribb'd, confin'd, bound in' not as was Macbeth, to his 'saucy doubts and fears' but by the evidence and arguments of litigants." That was a gentle way of rebuking Lord Denning for his daring judicial gymnastics, whereas other Law Lords, notably the present Lord Chancellor, have in the past been less kindly in their criticisms.

The second confusing feature *of the law is the appellate-process* as it affects the amount of compensation. The trial judge made his award on the basis of the facts as they stood at the date of judgment in December 1977. When the case reached *the Court of Appeal* in June 1978 Dr. Lim's mother, who had been caring for her daughter back home in Penang, had suffered a deterioration in health which made it improbable that her daughter could be cared for any longer in Malaysia. She would have to be brought back to England.

The Court of Appeal admitted fresh evidence to indicate how the cost of transfer and future cost of caring would be affected. Yet again, when the House of Lords heard a further appeal in March 1979, the transfer back to England had in fact taken place and an entirely new assessment of the cost of future care was needed if justice between the parties was to be done. The House of Lords in its turn allowed fresh evidence to be adduced; it led to the award being reduced from £255,000 by the trial judge to £228,580 in the Lords.

The device of granting the parties to litigation leave to *adduce fresh evidence* at the appellate stage — this case was a rare instance of two appeals, but one appeal is not uncommon in personal injury cases where awards of damages are high — does alleviate some *of the injustice of a lump-sum* system. For the period of the appellate process awards can be brought into line with what has happened since trial.

But to rely on the appellate process to mitigate the injustices of the *lump-sum* system is to rely on a makeshift, and is of dubious value when the future of the injured victim stretches well beyond even the most languid processes of the law.

The most disturbing feature of this branch of law is that Dr. Lim's cruel predicament is nowadays not a rare exception. The courts are not infrequently having to face the prospect of assessing damages to a person who has been converted by an accident (usually on the roads) from a healthy intelligent wage-earner and breadwinner into an unemployable handicap upon his family or institutions for the infirm.

Moment of Weakness can win

RACING

BY DARE WIGAN

NEVILLE CALLAGHAN, whose Newmarket stable shows signs of returning to early season form following a bleak period, saddles Fashion Club for the Home Ales Gold Tankard Handicap (3.15) at Nottingham this afternoon.

This consistent filly appears to be reasonably weighted with 9 stone, bearing in mind her good performance when finishing close-up fifth in the Wokingham Handicap at Royal Ascot.

Willie Carson, fresh from his triumph on Troy in the Irish Sweeps Derby at The Curragh on Saturday, partners Mendelita in the Colwick Hall Stakes for three-year-olds (4.45) for maidens at starting, run over two miles.

This is a race that will not require a great deal of winning and Carson has good prospects of landing it.

Paul Cole has sent three horses from Lambourn in Berkshire on the long haul to Edinburgh, all to be ridden by his good apprentice, S. Eccles.

At least one of them holds an obvious chance of winning—Moment Of Weakness, a convincing winner at the Epsom Derby meeting.

Lester Piggott will be at Windsor this evening, to ride Charming Native in the Pall Mall Stakes (8.05). Though this American-bred colt is required to give weight to the other runners, he is likely to retain his unbeaten record.

Old Dominion, a shade unlucky at Bath the other day, is preferred to Murmansk in the Marble Arch Maiden Stakes (6.45).

Ambler, who deserves a reward for consistency looks best in the Motorway Handicap (7.35). And Maiden Pool, successful at Salisbury last week, can carry a 7 lb penalty to success in the Heathrow Handicap (8.35).

NOTTINGHAM
3.15—Fashion Club*
3.45—Solar Haey
4.15—Jondi
4.45—Mendelita

EDINBURGH
4.00—Moment Of Weakness***

WINDSOR
6.45—Old Dominion
7.35—Amble**
8.05—Charming Native
8.35—Maiden Pool

More vessels use Sheerness

THE NUMBER of deep sea vessels using the deep water terminals at Sheerness Docks, Kent, rose considerably in the first half of this year.

A total of 171 deep sea vessels were worked at the four terminals, an average of almost one ship per day. Cargoes included forest products, wine, fruit, meat, containers and cars.

The roll-on roll-off ferry terminal was also busier, with 408 vessels bething during the six months.

TV/Radio

† Indicates programme in black and white

BBC 1

1.30 pm Trumpton. 1.45 News. 1.55 Wimbledon Lawn Tennis Championships. 4.18 Regional News for England (except London). 4.20 Play School (as BBC-2 11.00 am). 4.45 Baggy Pants and the Nitwits. 5.05 Blue Peter Flies the World. 5.35 Fred Basset.
5.40 News.
5.55 Nationwide (London and South-East only).
6.15 Wimbledon highlights.
7.20 The Dukes of Hazzard.
8.10 Panorama: Going Critical—Your Nuclear Future.
9.00 News.
9.25 The Monday Film: "They Call Me Mister Tibbs," starring Sidney Poitier.
11.10 Tonight.
11.50 Weather/Regional News.

All Regions as BBC-1 except at the following times:—

Scotland — 9.50 am Magic Roundabout. 9.55-10.00 Jackanory. 10.10 Don and Pete. 10.15 Desert Adventure. 10.40-11.00 Take Hart. 5.55-6.15 pm Reporting Scotland. 11.50 News and Weather for Scotland.

Wales—1.30-1.45 pm Pili Pala. 5.55 Wales Today. 6.15 Heddiw. 6.35 Join BBC-1 (Wimbledon). 11.50 News and Weather for Wales.

Northern Ireland—4.18-4.20 pm Northern Ireland News. 5.55-6.15 Scene Around Six. 11.50 News and Weather for Northern Ireland.

England—5.55-6.15 pm Look East (Norwich); Look North (Leeds, Manchester, Newcastle); Midlands Today (Birmingham); Points West (Bristol); South Today (Southampton); Spotlight South-West (Plymouth).

BBC 2

11.00 am Play School.
2.00 pm Wimbledon Lawn Tennis Championships.
8.05 Mid-evening News including sub-titles.
8.15 The Waltons.
9.00 Inside Story.
9.45 Verse, Worse and Baby Grand.
10.15 Return Call to Brass Tacks.
10.30 Wimbledon Match of the Day.
11.20 Late News.
11.35 Heute Direkt.
12.00 Closedown reading.

LONDON

9.30 am Schools Programmes. 12.00 Jamie and the Magic Torch. 12.10 pm Once Upon A Time. 12.30 The Sullivans. 1.00 News plus FT Index. 1.20 Thames News. 1.30 All About Toddlers. 2.00 Monday Matinee: "The World of Suzie Wong," starring William Holden, Nancy Kwan and Michael Wilding. 4.20 Clapperboard. 4.45 Why Can't I Go Home? 5.15 Survival.
5.45 News.
6.00 Thames at 6.
6.35 Crossroads.
7.00 Oh Boy!
7.30 Coronation Street.
8.00 In Loving Memory.
8.30 World In Action.
9.00 Spearhead.
10.00 News.
10.30 Monday Star Movie: "The Wrath of God," starring Robert Mitchum and Rita Hayworth.
12.30 am Close: Personal choice by Kenneth Connor.

All IBA Regions as London except at the following times:—

ANGLIA

1.25 pm Anglia News. 2.00 House-party. 2.25 Cartoon Time. 2.30 The Royal Show. ...

ATV

BORDER

CHANNEL

GRAMPIAN

GRANADA

HTV

SCOTTISH

SOUTHERN

TYNE TEES

ULSTER

WESTWARD

YORKSHIRE

Radio Wavelengths

RADIO 1

RADIO 2

RADIO 3

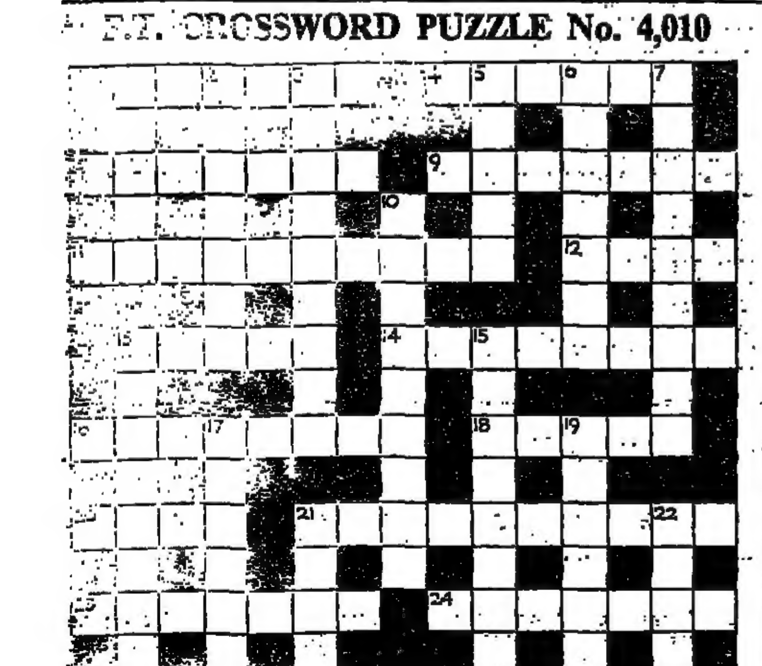
RADIO 4

BBC Radio London

London Broadcasting

Capital Radio

F.T. CROSSWORD PUZZLE No. 4,010



ACROSS
1 Drink for each meal (6)
4 Three times as much rubbish left inside (6)
8 String instrument with note defiled (7)
9 East German in mature repartee (7)
11 Trading in song and cheerful about it (10)
12 Jug animal before roasting initially (4)
13 Sudden fright in Japan I created (5)
14 Wins help but it could be denied (8)
16 Material making part of body pass away (8)
18 Photograph to impress (5)
20 Exclusive type of fish (4)
21 Upper part of church sounds like an obvious tale (10)
23 Article between two vehicles in mobile home (7)
24 Appropriate wear for walking quickly (7)
25 Former eastern politician begins talks but is not liable (6)
26 Tale about Frenchman could be violent (6)

DOWN
1 Slip left in team (5)
2 The French panic badly over a bird (7)
3 Came on stage and filled with rapturous delight (9)
5 Wet weather for soldiers in Yugoslavian capital (5)
6 Serve a summons on crowd surrounding Officer Commanding (7)
7 Unusual exit terms for radical (9)
10 Confounded by alternative arrangement (9)
13 Attendant about to set fire to vicar's home (9)
15 Instrument to give effect to (9)
17 Mean to state how old one is (7)
19 Whole number making it green (7)
21 Embrace Pole and applaud about it (5)
22 Hasten to New York to be liquefied (5)

The solution of last Saturday's prize puzzle will be published with names of winners next Saturday.

هكذا من الأصل

Christ Church, Spitalfields

Jephtha

by MAX LOPPERT

Though Handel always claims the place of honour in any festival of English music, his last oratorio was an odd choice of work to close the Festival of English Music in which the 250 years of existence of Christ Church, Spitalfields, have been celebrated. The theme of Handel's profound and tragic masterpiece is that man's submission to the caprices of fate is both necessary and right—a belief that in life would surely have denied Hawksmoor's church such courageous and efficient Friends to secure its salvation from rot and neglect. Perhaps the aim of the choice was to show that the promotion of the church to a position of importance in London's musical life is now inevitable, that, in the opening words of the oratorio, "It must be so!"

If so, it was a successful choice: for Saturday's performance, given by Richard Hickox and the Singers and Orchestra that bear his name, was well attended and enthusiastically received. Handel and Hawksmoor made an imposing combination, setting each other off in ways that added contrast and variety to the occasion. The intriguing quirkiness of the church exterior and the darkly dramatic quality of its interior provided a striking background for a work sternly simple in outline, fine in texture, and exquisitely spare in colouring.

In one way, the church was unhelpful in focusing attention on Handel. Though the ripe resonance composed a sound picture of splendour for the warlike and jubilant moods in which the predominant sombreness of the music is relieved, it obscured much musical and verbal detail, and much of Handel's extraordinary rhythmic sophistication. Choral words were almost entirely lost; of the soloists only Sarah Walker's Storge (a performance of remarkable strength in which both passion and understatement played eloquent parts) and Stephen Varcoe's otherwise lightweight Zebul were able to make telling use of Morell's text. Familiar, much-loved instrumental felicities, such as the syncopating strings in the duet for Iphis and Hamor, or the carolling flute in "Tune the soft melodious lute," tended to emerge distant and diminished.

This could, I felt, have been counteracted by a steadier, weightier view of the work than the one taken by Mr. Hickox. Fast tempos in several of the choruses threatened both slickness of approach and a blur of sound; even such an aria as Jephtha's "Waft her, angels" seemed to trip along too neatly. (Was the monumental, consciously "late work" manner of giving the work in discredited times past wholly wrong?) For all this, it was a reading of distinct character and impressively careful preparation. Robert Tear took the title part, in uneven voice; the metal in Felicity Palmer's soprano and its increased amplitude now make her a less than ideal choice for the virginal Iphis. Both sang with intense conviction; both, despite their faults, were very moving.

Elizabeth Hall

Punch and Judy

by DOMINIC GILL

Punch and Judy is Harrison Birtwistle's first and so far his only performed opera, commissioned and given by the English Opera Group at Aldeburgh in 1968. Andrew Porter called it then on this page also "the first modern English opera—an opera created by kinds of thinking more familiar in a small concert hall, in the contemporary theatre and modern dance-movement, than in our tradition-bound opera houses."

I did not see that premiere, but heard a tape of the music afterwards, which made a strong impression. *Punch* appeared subsequently at Edinburgh, and then mysteriously vanished from the repertory of both theatre and concert-hall. It is a vivid and exciting work—and it is much to the credit of the London Sinfonietta that they chose to revive it in concert performance last Friday after so many years.

Vivid and exciting—and passing strange. It is not a likeable work: but it is a piece that fascinates as it unsettles, rewards as it also discomforts. The scoring, for 14 instruments and two busy percussionists, with six solo voices, is harshly laid out, in the manner of the early Birtwistle of *Tragoedia* (which was a "study," though little material was actually exchanged, for *Punch*). Brasses bray, percussions snap, voices sneer, cry out in anguish; strings and reeds fizz with tension and conflict. In the whole of *Punch's* one hour and 45 minutes there is not, even where a sudden mirage of lyrical tenderness, quickly vanishing, would try to persuade us otherwise, a single moment of relaxation or rest.

It is a difficult score: tough to listen to, tough to play. Every element is stretched to breaking point: busy almost (but not quite) to the point of confusion, its denseness almost opaque, its violence almost painful. Birtwistle and his librettist Stephen Pruslin have returned to the older traditions of ritual theatre to create their "source opera after the event"—a collective generalisation of known, familiar operas, which "though written after them, would give the illusion of having been written before them."

In 1968 I found the significance of this very odd conceit obscure: the thread of Pruslin's argument is elusive on paper—what "illusion"?—and in performance barely perceptible. Perhaps the answers, like the questions, may be irrelevant: but it's a shame nonetheless, and indeed still a basic flaw of the piece, that the individual words of Pruslin's text—weird, rich ande evocative enough to justify the clearest projection—are rarely comprehensivle without libretto in hand. The performance under David Atherton was a triumph of energy and clarity; the six soloists, Bryn-Julson, DeGaetani, Langridge, Roberts, Wilson-Johnson and Tomlinson, rose to their individual challenges all with eagerness and eloquence.

64 entrants for piano competition

Young pianists from as far afield as Canada and Japan are among the 64 entrants in the first Newport International Piano Competition sponsored jointly by W. H. Smith and Standard Telephones and Cables.

Preliminary auditions will be held on August 31 and September 1 in London and Newport, with second and third rounds scheduled from October 4 to 7 in south Wales.

The winner of the competition will receive £500 in prize money plus the offer of public engagements, with another £300 to be given to the secondplace pianist and £200 for third place.

The South Bank as it is envisaged

Architecture

A cure for the South Bank

by COLIN AMERY

How many Londoners can remember dancing on the South Bank? I have only seen that marvellous film, *Brief City*, which ends with the rain-soaked crowds dancing away the last minutes of the 1951 Festival of Britain to the strains of *Geraldo and his orchestra*. That party has been over for 28 years and somehow that warm Festival spirit has never returned to the South side of the Thames. If you walk across Hungerford Bridge to day to go to a concert the wonderland has vanished. Dreary acres of stained concrete and windswept terraces are the uninviting surroundings of London's cultural centre.

Today a small exhibition opens at the Royal Festival Hall and runs until July 11 to show some proposals designed to rejuvenate the surroundines of the concert halls and the Hayward Gallery. The exhibition is organised by the *Architectural Review*, that tireless campaigner *for the improvement of* our surroundings, and consists of a series of lively drawings by Kenneth Browne that demonstrate a variety of ways the place could be cheered up.

The main proposals are for a series of limpet-like extensions to be grafted on to the existing rocky landscape. Elegant glass conservatories could be built around the edges of the concert halls to provide small shops, restaurants and galleries.

A pub and restaurant is planned for the bleak terrace to the west of the Queen Elizabeth Hall which would have splendid views of the river. The road between the Royal Festival Hall and the river should be removed, according to the *Architectural Review*, and replaced by lush gardens crossed by broad stairways. A ship museum, perhaps the Discovery, is moored by the embankment, *another ship/pub* would also be a good idea. Perhaps the most controversial proposal is for flats and craft workshops to fill in the dank undercroofs of the two main bridges, and for two ranges of houses to be built in front of the Shell Tower.

The principle behind all *these proposals* is a sound one. Because there is too much draughty open space (six and a-half acres) on the South Bank there is a great need for more buildings. These exhibition proposals do not really go far enough because they do not grasp the architectural problems of the area. No amount of dense planting will ever conceal the fact that the Queen Elizabeth Hall and the Hayward Gallery are monstrously ugly buildings. It is hard to see in Kenneth Browne's drawings any *architectural* alternatives. The area *desperately needs to be* built up with courts, arcades and squares that will provide the sense of shelter and enclosure that the South Bank needs. The *Architectural Review* has rightly revealed the desolate nature of the site but its remedies are too timorous.

The South Bank is a classic example of the modern architect's hatred of the street, and some drastic and serious urban design work is needed to knit the area back into the urban fabric. To start the process it would be a good idea to consider our miserable climate. The National Theatre already shows us the way by its generous provision of strikingly designed *foyers* that are *open day and* night, that give views of the river and yet are warm and civilised places. Look at the North American cities that provide so much indoor and outdoor public space around their new buildings. The South Bank should stop pretending that it is an Exhibition Ground and adopt some urban values. The standard of the urban spaces should be at least as high as those of the Rockefeller Center in New York. South London is not the Costa Brava. It is a wet, windy, rivery kind of place with the *most marvellous views of* the rest of London, that could well provide the focal points of a new urban plan.

The other thing that is wrong with the South Bank is that it is so municipal and Puritan. If the spirit of Soho could be lured to cross the river what a different place it would be. There's not enough sin on the South Bank. How can this deadly cultural pretension be shattered? The answer is not easy and this little exhibition has made a brave start. It would be sad if no action followed and these modest proposals were filed away in County Hall. I am convinced that there is room to build a *small new town on all the* vacant spaces and it should be very high density and self-consciously urban. A great mistake in the past has been to think of anything on the south side of the Thames as the suburbs when it should be London's Left Bank.

Christ Church, Spitalfields

Vishnevskaya and Rostropovich

by ELIZABETH FORBES

How the Spitalfields Festival of English Music justified the *inclusion of a recital of Russian* songs in its programme I have no idea—the district has had strong foreign connections since Huguenot weavers from France settled there toward the end of the seventeenth century, as a fascinating exhibition, The Story of Spitalfields, mounted inside Christ Church, graphically demonstrates—but in any case Friday evening's appearance by Galina Vishnevskaya and Mstislav Rostropovich needed no justification.

The Russian soprano was in magnificent voice, the tone vibrant and secure—her rock-steady, long-held soft notes were an especial joy—not only in the powerful middle register but at the top as well, while her *intensity of concentration* held the audience spell-bound despite the language barrier. Indeed, with such expressive singing no such barrier existed. The more dramatic songs suited her best, but she could also sustain a lyrical mood without difficulty, while investing the lighter settings with the high spirits of a playful tigress.

Fine examples of the dramatic handling of powerful *emotions were provided by* Rimsky-Korsakov's setting of Pushkin's poem "The clouds part" and by two Chaikovsky songs, "If I had only known" (A. K. Tolstoy) and "Why?" (Mey's translation of Heine). The latter composer's "Serenade"—a setting of "O my child, beneath your window" by the Grand Duke Konstantin, austerely named in the programme as K. Romanov—benefited from an admirable delicacy of approach, while Glinka's "I remember the wonderful moment" and, in particular, his song "The lark," both had an elegiac beauty of tone and phrase.

"Katerina," a folk song by Prokofiev, introduced a flirtatious element while Rakhmaninov's "Rouge on the pale face" inspired a splendidly histrionic display of injured innocence. The setting of Pushkin's nostalgic "Oh never sing to me again," also by Rakhmaninov, drew a striking response from the singer and also gave the pianist a chance to shine. Though he suppressed his normal exuberance of personality, Rostropovich was an equal partner with his wife throughout the recital. As the only encore, Vishnevskaya gave, unaccompanied, Lyuba's song from Rimsky-Korsakov's opera, *The Tsar's Bride*. It was a magical ending to the evening.

Earlier on Friday, Helen Walker gave a lunchtime recital of English songs. Her bright-toned voice and neat phrasing showed to advantage in Elgar's "A song of autumn" and "The poet's life." Bridge's forthright "Love went a-riding" was more convincingly expressed than Warlock's rapt setting of "Late summer" or Vaughan Williams' ecstatic "Silent noon." Though the soprano enunciated "The bold, unbiddable child" by Stanford with commendable clarity, she did not make quite enough of the words in Berkeley's settings of five poems by W. H. Auden. John Alley was her dependable, helpful pianist.

Louis Armstrong anniversary concert

The tenth annual Louis Armstrong concert takes place on Saturday, July 7, at the Festival Hall, starting at 8 pm.

Heading the bill, as they did at the first concert in 1970, will be Humphrey Lyttelton and Alex Welsh with their bands.

Guesting with the Welsh band will be trumpeter Digby Fairweather, while American singer Joe Lee Wilson, who now lives in Brighton, will appear with the Lyttelton band.

Moshinsky agreement with Royal Opera

Elijah Moshinsky, whose new production of *The Rake's Progress* opened at Covent Garden on June 18, has signed a five-year agrement with The Royal Opera. Between 1979 and 1984 he will be responsible for several new productions, the first of which will be Verdi's *Macbeth*, conducted by Riccardo Muti, in 1981, as well as the revivals of his own existing productions.

Zurich Festival

Schoenberg and Schoeck

by RONALD CRICHTON

The major Swiss festivals, geared to the higher echelons of tourism, are conservative. Even so, if one studies the brochures carefully (they produce them sooner and print them better than most countries) one can usually find musical events with programmes unusual enough to deserve the name of festival. On two consecutive evenings this year Zurich showed ways of doing this. First, by providing a slap-up performance of a big, late-romantic work which for economic reasons will not often turn up. Schoenberg's *Gurrelieder* presumably need not cost more than the hugest Mahler symphonies, but *organisers still fight shy of* the score on practical grounds. The orchestra is *Elektra*-sized. A large mixed chorus is required but only fully employed in the short final section. Otherwise only the male half is, briefly, involved. The soprano and mezzo soloists, who need strong casting, disappear after the interval.

But what rewards there are in a good performance! The *Gurrelieder*, most accessible of Schoenberg's larger works, pose no problems to the ordinary listener. The music, composed in the first years of the century but not fully orchestrated for a decade reveals, as everyone points out, something of the composer's radical evolution during those years. But why should not a piece of music of this length be heard to evolve? In any case the final sunrise-blaze of choral sound effortlessly recaptures the pagan innocence and direct sensuality of the first part's love music—this is the world not only of Mahler but of *Zarathustra* and the *Mass of Life*, also, on a scale *and intensity which would have* horrified Debussy, of Pelléas when he lets fly in the fourth act of the opera.

Gerd Albrecht was in charge of the Tonhalle Orchestra and of choruses from the Engadine and Küsnacht. The Zurich Tonhalle is a splendid, sympathetic hall of roughly the same archi*tectural and acoustical* vintage as the Musikverein in Vienna and the Concertgebouw in Amsterdam. Good orchestral playing in music of this type sounds gorgeous, but in spite of the resonance carefully-worked, tendrilly detail of the type in which the *Gurrelieder* abound come through clearly. The chorus, when their time arrived, sang with full commitment even though, to ears fresh from the Leeds Festival, the tone was small for the numbers.

Tove and Waldemar, wood-maiden and kingly lover, were sung by Rose Wagemann and Wolfgang Neumann (Peter Hofmann had been announced). She was strong, dependable, not particularly winning, unable entirely to banish memories of Janowitz at a Vienna Festival performance under Krips some years ago. He was effective in the dramatic pages such as part two, less persuasive in the lyrical ones—most of the yearning in the phrase "Du wunderliche Tove" came from the orchestra. The wood-dove's scene was strikingly given by Brigitte Fassbaender with plangent cries of "Weit flog ich, Klage sucht'ich, fand gar viel." This episode is fairly often heard on its own. Gert Westphal, distinguished actor from the Zurich Schauspielhaus, showed that the "Summer-wind" recitation with its marvellously subtle, scurrying accompaniment, deserves the same tribute. Most enjoyable. As German colleagues would say, the applause would have no end.

The second occasion, actually first in point of time, was a special concert of the chamber music of Othmar Schoeck, given on a hot and humid evening in the intimate music-room of the Stadthaus, full to suffocation. But worth it, in spite of discomfort. Schoeck, a Swiss near-contemporary of Schoenberg, usually proves worth while on the occasions when his music is played. He spent some years in Germany as a pupil of Reger, whose chromaticism is about as far down the road of "progress" as Schoeck cared to travel. Otherwise he did not seek international acclaim like Honegger or Martin but stayed in his own country working quietly and productively. He had his own things to say in his own way, with fluent, adaptable technique and abundant lyrical invention.

The centrepiece of the recital was the String Quartet in C, dating from 1923, the second of two. Five movements, of which the second has a winding, *melancholy strain over rustling moto perpetuo*. Much else in the work is Regerish in harmony if not in density of texture. But well as he wrote for instruments, Schoeck's particular province was the human voice, and the rest of this programme was drawn from his large output of Lieder, with emphasis on his settings of Hermann Hesse including the Ten Songs op. 49, of which "Mittag im September," "Pfeifen" and "Für Ninon" gave special pleasure.

A little-known fairly late work (1944) was the *Spielmannsweisen* for voice and harp, settings of verses by a neglected poet, Heinrich Leuthold, recommended to Schoeck by Hesse. *The short cycle of six songs*, lasting for ten minutes, is continuous. Beginning and end are in minstrel style like a sophisticated *Immortal Hour*. In between, more remote paths are trodden. Julia Juon, a useful mezzo, and the tenor Kurt Huber, were the singers. They, their partners at piano (Peter Waters) and harp (Isolde Ewig) and the Reist Quartet from Berne, performed labours of love in the steamy atmosphere.

Schoeck is not entirely neglected, little though we in England may hear of him. Much of his music is in print. There are recordings, including the striking opera *Penthesilea* (on German Harmonia Mundi) *reviewed here not long ago*. Werner Vogel has published a useful biography and an invaluable Thematic Catalogue (both Atlantis, Zurich). The concert described was given jointly by the City and the Schoeck Society. The latter, like other worthy associations of the kind, presumably has limited resources. On the official, international level the Swiss don't appear to do much to help their composers. When, I wonder, did the Zurich Festival last mount one of Schoeck's operas?

Crawford's offer to save show

Michael Crawford, following the announcement that his new musical *Flowers for Algernon* is to cl ose in two weeks, offered to work for nothing to try to save the show, it has been disclosed. He, co-star Cheryl Kennedy, and the rest of the cast were told that the £200,000 production was to finish its run shortly.

Crawford then told the management he would give up his fee to help keep the show going. The rest of the cast, he said, were "marvellous" and offered to do the same.

Producer Michael White said the costs of presenting a musical in London were so high that a show had to be an immediate hit.

TENNIS BY JOHN BARRETT

Calm should follow first-week carnage

AFTER THE carnage in the men's singles during Wimbledon's first week, in which ten of the seeds failed to reach their appointed places in the fourth round, it became increasingly clear that the winner of the expected meeting on Thursday between the triple champion, Bjorn Borg of Sweden, and his American rival, Jimmy Connors (they contested the last two finals here) should prove this year's champion. The failure of the No. 2 seed, John McEnroe, on Saturday—beaten 6—4, 6—2, 6—4 by the right-handed of the Wisconsin twins, Tim Gullikson—was as unexpected as it was dramatic.

One problem for the seeds playing on the outside courts is the greater intimacy of the setting, where spectators are literally at the court-side. The noise, distractions, and even personal abuse are all much more upsetting. This clearly was too much for McEnroe on Court No. 2, where the hostile crowd played an important part.

It usually takes even the most gifted player two or three years to learn to overcome the extra pressures which Wimbledon alone of all the great championships exerts. Even as great a past champion as John Newcombe, who won the singles three times, failed to get past the second round on his first six visits.

The hurly-burly of the first week, particularly if rain leads to a crowded schedule, has been the undoing of many great players. They all know that to survive two or three close matches against opponents who are on a hot streak needs a little luck, as well as considerable skill.

This, plus the fact that the men's game has never been stronger in depth, is the reason why so many apparent upsets occur. Now that we have reached the calmer waters of the second week, where the winners have a day's rest between matches, form should hold more true.

The first women's quarter-finals today is between Virginia Wade and Evonne Cawley. They have not played before this year, but the Australian had two victories last year and leads 25-8 overall. Even if Miss Wade serves as well as she did in winning the centenary championships in 1977, I doubt whether the rest of her game is sufficiently reliable for her to score a ninth win.

The second Centre Court match will be an *intriguing* first contest between fourth-seeded Tracy Austin, who yesterday confirmed her fitness in a good work-out with her brother John and that great past champion (seeded No. 7 this year) Billie Jean King.

Despite her successes, 16-year-old Tracy, now on performance, the world's *third-best* woman player, will find the psychological pressure Mrs. King exerts on her opponents a formidable barrier.

On Court One Martina Navratilova, the defending champion, has probably the toughest opponent in the left-handed Australian, Diane Fromholtz.

The last time they met, at La Costa in the spring, Miss Fromholtz scored her third victory against Miss Navratilova in 13 meetings. She knows she can beat all the top girls, and might easily pull off an upset today. I doubt, though, whether she *could* repeat the process three matches running, to claim her first Wimbledon title.

Finally, Mrs. Chris Lloyd should increase her victories over Australia's Wendy Turnbull to 10. She has never lost to the Australian and in defeating Laura Dupont on Saturday 6—2, 6—1, Mrs. Lloyd, the U.S. No. 1, was looking ominously confident. In her four matches so far she lost only 19 games and no sets.

The men's quarter-finals, to be played tomorrow, offer the chance of fame for four men who have never been in a Wimbledon semi-final. Adriano Panatta, who has emerged from the Arthur Ashe quarter, plays America's Pat Dupre, ranked only No. 43 nationally, and the outcome is anyone's guess. Dupre who dismissed Vitas Gerulaitis, the No. 4 seed, last Monday, to start the run of shock results on Court No. 2.

His 8—6 fifth set victory over Bob Lutz, the No. 9 American, shows he is still full of fight, and I believe he may emerge to the last four.

If he does, he might play Gullikson, who has a 2—0 edge on Roscoe Tanner, the No. 5 seed. However, Tanner has been in a Wimbledon semi-final before and may yet defeat Gullikson on the strength of his fierce serving and greatly-improved groundstrokes.

The prospect of upsetting his country's No. 1, Jimmy Connors, will fire Bill Scanlon, the U.S. No. 18, with enthusiasm. He has lost three times to Connors before, and will probably do so again, but his beautifully-balanced game may give the No. 3 seed some serious problems.

Borg should repeat his semi-final win of last year against the evergreen Dutchman, Tom Okker, who carries his 35 years lightly, as he showed in beating Gene Mayer in four sets on Saturday.

However, it will be a different matter facing the hammer-blows of the favourite. Whatever the rumours about his fitness, Borg maintains that he is feeling perfectly fit. Okker's game, delightful though it is to watch, is too lightweight to hurt a fit and confident champion.

The best of the world's youngsters, who competed in the junior event this week, have already enjoyed a week of grass-court tennis at the adjacent Wimbledon New Zealand Club, where BP-Pepsi Bowl finals were played yesterday. Winners were Alycia Moulton, who beat fellow-American Mary Lou Piatek, 6—4, 6—4, and the South African, Schalk van der Merwe, who served too powerfully for Australia's Michael Fancutt for a 6—3, 7—5 victory.

U.S. SOCCER BY BEN WRIGHT IN NEW YORK

Cosmos hot seat empty

IT REMAINS to be seen whether the New York Cosmos can become the best soccer team in the world, as is the avowed intention of the triumvirate of show-business moguls who own and run the champions of the North American Soccer League.

But if an open chequebook can accomplish such a feat, and buy sufficient loyalty at the same time, then Steve Ross, chairman of the Board of Warner Communications, and his two aides, the Turkish brothers Ahmet and Nesuhi Ertegun, who run the immensely profitable records division at Warner, may well pull it off.

Average gates at home at the Giants Stadium run to somewhere between 60,000 and 70,000 and on the road the Cosmos are creating records at each step.

Yet when the Ertegun brothers, soccer fanatics both, received the blessing from Mr. Ross to buy the Cosmos for $25,000 in 1971, the gate receipts at the first home match thereafter at shabby Randall's Island, New York, amounted to just $86.

Over the past three years, however, the turnover in human terms has been deeply disturbing. Three coaches, one general manager, one president and about 30 players have been disposed of, mostly summarily.

The last coach to go, Eddie Firmani, was hired on July 7, 1977, and fired last month. When Firmani left suddenly, the team had won nine and lost only two of its matches in the 1979 season, and was well ahead of the Washington Diplomats in the Eastern division of the National Conference. Firmani had steered Cosmos to two successive NASL championships; while he was in charge of the team it won 92 matches and lost 28.

That Firmani's task had been an impossible one is suggested by the fact that, following his sudden dismissal, Mr. Ross and the Erteguns had hoped to attract world class coaches in droves, having left Prof. Julio Mazzei and Ray Klivecka, Firmani's assistants, temporarily in command. But no-one has yet come forward to volunteer for the hot seat.

And hot seat it is. Firmani would have had to have known no fewer than ten different languages to have communicated totally with all his players, which he was accused of not having done properly. But just consider the roster of stars he was attempting to control. Pele, signed four years ago on a three-year contract for $4,700,000, has now returned to his native Brazil. But his telling presence is still felt, and it was he who signed his compatriot, forward Francisco Marinho, whom Firmani knew would set disciplinary problems, on a *$250,000 contract when Firmani* himself was in Europe.

Franz Beckenbauer, captain of the West German World Cup winning team of 1974, was scooped from Europe on a four-year contract worth $2,400,000. Giorgio Chinaglia, a brilliant striker, was lured from Italy on a six-year contract *worth $1,300,000. Dennis Tueart* came from Manchester City for three years for $500,000. Yugoslavia's Vladislav Bogicevic was signed for three years for $450,000, as was the veteran Brazilian defender Carlos Alberto, a member of his country's World Cup winning team of 1970.

The Dutch defender, Wim Rijsbergen, came over earlier this season, also for $450,000, while his countryman, midfielder Johan Neeskens, arrived just over a week ago on a five-year contract that will earn him $1,600,000.

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Learning the oil lesson

IT IS almost impossible to observe the present energy crisis without a feling of *déjà vu*: we have been here before. It is also difficult not to conclude that the lessons of 1973-1974 have been only partially learned. The crisis then came about because the Arabs were prepared to use the "oil weapon" in an Arab-Israeli conflict. It was an instrument for putting pressure on the western industrial democracies who also happened to be friends of Israel. At the same time, it was a realisation of the oil producers' strength. Once oil prices were so substantially increased, hte producers became a considerable force in the world, and all the more so because everybody knew that they could raise prices further —or reduce supplies—at any stage.

Fortuitous

The lesson that was learned then was that it was necessary to pay more attention to events in the Middle East with the aim of promoting an Arab-Israeli settlement. Dr. Kissinger subsequently devoted a great deal of his time to Middle East diplomacy, and President Carter has continued his efforts.

It is also true that since the events of 1973-74 the Western democracies have become rather more united. In those days the economic summit meetings which have become a regular feature of the international scene did not exist. The summits may not always live up to expectations, but at least they take place. They breed a habit of consultation and a will to take common action which was not always there in the past.

Not least, the previous crisis led to a call for greater understanding between consumers and producers. As it happened, the attempt to reach such an undesrtanding became bogged down in the wider issues of the north-south dialogue. In the end, it was largely abortive, but that does not mean that the objective was wrong.

The lesson that was not learned from the events of 1973-74, however, was a more general one. It was that the western world is too dependent on imported oil in any circumstances, and that such dependence ought to be reduced. The present crisis came about not because of a renewal of conflict in the Middle East, nor because the Club of Rome has been proved right in saying that oil is a finite resource. It has been caused by an entirely fortuitous revolution in Iran. Yet if the west had concluded in 1973-74 that its consumption of oil must be cut whatever happened, it would be in a better position to cope with the present situation.

Short-term

In other words, what went wrong in the past was a refusal to follow up good intentions proclaimed during a time of crisis when conditions returned to something like normal. The fact is that normality cannot be assumed to last indefinitely. The only safe guiding line is that dependence on imported oil is too great for comfort.

Once the new crisis occurred, there was very little that the industrial democracies could do about it in the short-term. They could agree to cut consumption, though they would probably have had to do that anyway even without a summit meeting. They could promise to develop alternative sources of energy, and they could call for a new dialogue with the producers while warning that those likely to be most hurt by the new round of price increases are the non-oil developing countries. All that was done at the Tokyo meeting last week, and it is hard to see how anyone could have expected much more.

In practice, the decision to cut consumption in the short-term may be no more than a statement of the inevitable. It is quite probable that consumption will fall sharply as a result of a recession caused, at least partly, by the present level of OPEC prices. If that happens, the natural consequence would be for oil prices to ease again. It is then, however, that the Tokyo resolutions would be put to the test. Do the Western nations relax once the immediate crisis is over, or do they stick to their good intentions?

End in itself

The fact that the Tokyo meeting agreed that limits should be imposed on oil imports up until 1985 suggests that this time it has been accepted that the real problems are long-term. If that is the case, some progress has been made. For the main lesson of this second energy crisis within a decade is that a reduction in the consumption of imported oil should not be made simply in response to events: it should be an end in itself.

Market forces at work

MRS. THATCHER'S economic strategy is built on the hope that market forces, when left to do their work without Government hindrance, will succeed in steering Britain towards economic prosperity.

It is an experiment whose success will be determined in the labour market. If Mrs. Thatcher fails, it will probably not be because of a new surge in inflation or an outburst of trade union militancy. Her strategy is more seriously threatened by pervasive rigidities in a labour market that has been dominated for decades by Government incomes policies. These rigidities could now easily lead to further industrial stagnation and decline in Britain's living standards relative to the rest of the world.

Task

The allocation of labour is the key to economic prosperity and efficiency. Britain's labour market is dominated by appalling imbalances in labour supply and demand. The Post Office and London Transport blame their persistent problems on labour shortages, while even in London there is 3.5 per cent unemployment and while there are thousands of workers with appropriate skills living in the North on the dole.

The Manpower Services Commission has long waiting lists for its training places for bricklayers, while there is little demand for training in engineering trades, in spite of the fact that registered unemployment in construction is huge, while there are serious shortages of engineers in many parts of the country. Meanwhile, whole teams of the very craftsmen who are in short supply work together on tedious and unnecessary tasks because of restrictions on the methods and pace of work.

Redressing some of the balances between labour supply and demand is now the most important economic task facing Britain. The most obvious means is by adjusting relative wages. Mrs. Thatcher's rejection of incomes policies means that wages can once again be set on the basis of the demand for particular workers in particular markets and the value of the product they produce. If there is a shortage of postmen in London, for example, there is a prima facie case that their wages are inadequate in relation to other workers.

But in this case, as in many others, there is also clear evidence that the workers' productivity is woefully low. Should the Post Office, therefore, be conceding higher wages in order to attract more labour, or should it be making postmen redundant? The paradox is only apparent, since, in the long run, wages and productivity are inexorably linked. The most important opportunity that the new atmosphere of economic freedom, and in particular the Government's rejection of incomes policy, has created is that of making this link between wages and productivity explicit once again in collective bargaining. This will only happen, to the benefit of both sides of industry, if unions and management can divest themselves of the mental habits acquired through decades of wage negotiations dominated by the Government.

Trade unions and their members will have to realise that in future some of them will be getting big pay rises, while others get little, or even nothing at all. A combination of foreign competition and tough monetary policy with the low profits now being earned by British industry may persuade many unions that flexing industrial muscle, while resisting productivity improvements, will not pay

Mandate

Managers' lives will also be more challenging, and tougher in a freer labour market. They will no longer be able to blame their own industrial relations failures on the Government, or to attribute production difficulties and stagnating productivity to incomes policies. They will have to accept that productivity improvements normally have to be paid for. Shareholders should now put on them, not on the Government or the media, the responsibility of persuading their workers that higher productivity is in their own best interests, by devising suitable incentives. If necessary managers will have to appeal directly to their workers, over the heads of union leaders. There is some hope that they may be successful. After all, many trade unionists were among the voters who decided to give Mrs. Thatcher's experiment a chance.

How Hua bowed to sense and lost some face

BY DAVID HOUSEGO AND COLINA MacDOUGALL

CHAIRMAN Hua Guofeng's state of the nation speech to the Chinese National People's Congress—officially the highest legislative body in the country—is a landmark in China's postwar history. Not for 20 years have the Chinese heard so blunt an appraisal of the acute economic difficulties they face, and of the limited advances open to them at least in the short term.

Since last December it has been clear that the leadership has realised not only that the plan which Hua announced in February 1978 for rapidly transforming China into a modern industrial state was impossible to fulfil, but that such fast growth risked a waste of resources and potential collapse similar to that which followed Mao's disastrous Great Leap Forward of 1958. Hua effectively shelved the plan he outlined with such confidence last year —with considerable loss of face for himself and other leaders.

The holding of the congress was an indication of a measure of agreement among the leadership on a sharp departure from Chairman Mao's radical and egalitarian methods of economic management. The full implementation of these new policies remains to be worked out. But Hua and other leaders have already spelled out with more facts and figures than have been given since the 1950s what the new strategy means in terms of investment, living standards and additional demands on the population. This in itself is a sign of a more open system of government. It is also reflected in the drawing up of a new institutionalised framework of law which the Congress is expected to ratify.

The promise of higher living standards to a people weary from years of domestic turmoil and of erratic leadership is central to the new economic strategy and is designed to prod them into more work and greater productivity. Hua claims that as a result of wage increases and bonus payments average earnings in state enterprises rose by 7 per cent last year over 1977, to a still low Yuan 644 or $398. (The conversion rate of 1 Yuan=$1.62 was used by the New China News Agency in its report of the estimated trade figures for 1979 and is adopted throughout this article.)

New emphasis on agriculture

Peasant incomes this year will be boosted by a 20 per cent increase of the state procurement price for rice and by other measures representing a net transfer to rural households out of the national budget of $8bn. But larger incomes have not yet been matched by increased supplies of consumer goods or of food to the towns—hence the new emphasis on agriculture and light industry at the expense of steel and heavy engineering.

At the same time as holding out this carrot of higher living standards, Hua left little doubt that the three-year period of "readjustment"—as the years 1979-81 are now being called—will be a painful period for many Chinese.

If the leadership lives up to its intention of carrying through a major restructuring — an admittedly large if — this will involve a settling for a temporary slower rate of growth, the shutting down of inefficient enterprises, tighter controls over expenditure, a shaking up of the administration that will threaten the positions of many long-established bureaucrats, and the pruning back of programmes in the costly heavy industry sector. All would be part of an attempt to correct the distortions in an economy which has suffered from a cumbersome and over-centralised administration and into which the leadership wants to inject more rational planning and some use of the market mechanism. Hua implied that if this opportunity was lost, China could be overwhelmed again by the anarchy of recent years and by problems of feeding the people.

Although Hua was the main spokesman for this new strategy it was certainly not he who evolved it. As a former protege of Mao it seems unlikely that he could entirely abandon the egalitarian concepts of the late Chairman, though he has apparently changed his views as to what is practical in China.

A far more likely candidate is Chen Yun, who reappeared officially for the first time for many years at the party Central Committee meeting last December. It was clear from the communique, which said that serious imbalances in the economy would have to be corrected, that such problems had been thrashed out. At the same time Chen Yun was elected a party vice-chairman, a rank he had held until the Cultural Revolution of 1966-69. He played a major role in Chinese affairs before the Great Leap of 1958, which he had strongly criticised.

When Chen Yun was influential in the 1950s he favoured more incentives, decentralisation, foreign trade and foreign borrowing (in those days from the Soviet Union)—exactly the kind of policies which were described in Hua's speech. As a result of his dealing with the Russians in the 1950s, he might have pressed for the milder tone evident in Hua's remarks about the Soviet Union and Vietnam.

It is not easy to see where Deng Xiaoping stands in relation either to this group or to Hua. He avoided associating himself with the over-ambitious targets that Hua publicised last year, but he apparently threw his weight behind the extravagant foreign trade programme and the Vietnam war, both of which the Chinese leadership is now playing down. Almost certainly, though, Yu Qiuli, chairman of the State Planning Commission who reported at the Congress on the 1978 and 1979 plan, and Zhang Jingfu, the Minister of Finance who delivered the budget report, stand as experienced economic oficials with Chen Yun. As long as the readjustment policy lasts they are likely to form a key grouping.

TRADE, PRODUCTION AND PAY:

Peking's forecast

	1977	1978	1979
Exports	$5.62bn	$10.68bn	$12.0bn
Imports	$6.2bn	$11.95bn	$15.5bn
Agric. output	$12.7bn	$93.0bn	+2.5 per cent*
Grain	282.75m tons	304.75m tons	312.5m tons
Cotton	205m tons	2.17m tons	2.4m tons
Silk	216,000 tons	228,000 tons	na
Indust. output	$230.1bn	$269.7bn	+8 per cent*
Coal	550m tonnes	618m tons	620m tons
Electric power	223.4bn kWh	256.6bn kWh	275.0bn kWh
Oil	93.64m tons	104.1m tons	110.0m tons
Steel	23.74m tons	31.78m tons	32.0m tons
Chem. fertiliser	7.24m tons	8.69m tons	na
Chem. fibre	190,000 tons	285,000 tons	+5.3 per cent*
Cotton cloth	10.2bn metres	11.0bn metres	na
Generating eqpt.	3.18m kW	4.84m kW	na
Tractors	99,300	113,500	na
Wrist watches	11.04m	13.51m	15.23m
Cameras	na	na	+23 per cent
Sewing machines	4.24m	4.87m	5.29m
Average wages	$372	$398	na

* No absolute figure giver

Source: New China News Agency

Little space for manoeuvre

The problem with successfully implementing the new policy —or indeed any other policy — is that the size of China's population now leaves little space for manoeuvre. The leadership admits to a population of over 900m, but reliable demographers in the U.S. believe it to be well over 1bn. Severe family planning measures now operate in the towns, but the huge increase during the Cultural revolution years, when there was no such programme has devoured any increase of farm output that there may have been. China already has a disturbing unemployment problem and the schools, which are still disorganised after the Gang of Four period face a huge increase of the number of pupils.

Agriculture is crucial to the whole Chinese economy because, besides feeding and clothing the people, it must supply nearly 40 per cent of the exports. Scope for increasing agricultural production is strictly limited. Last year, Hua announced, grain output went up from 283m tonnes to 304m tonnes. Even if these figures are correct (and there is some suspicion that the series he revealed has been adjusted to make 1978 look good) such an increase is not going to be repeated frequently.

The figure put forward for this year by the minister in charge of the State Planning Commission is 4 per cent. Hua himself told the Congress that agriculture could not keep up with the expansion of industry and "at times cannot even keep up with demands of a growing population."

It was frustration with the seeming immutability of such constraints that tempted Chairmain Mao to force the pace of growth by assaults like the Great Leap Forward. Something of this approach remained in Hua's plan in 1978 for 120 major new industrial projects and in Deng's belief that imported technology would shorten the road to modernisation.

In the rapid recovery of industry since Mao's death in 1976 output has grown annually by 13-14 per cent—a figure to which Hua pointed with pride. But it has brought to the surface all the flaws of the Chinese system. By December last year it was clear that the Government was losing its grip. Individual ministries, provincial and municipal administrations, were competing with one another for funds, often duplicating projects and thus wasting scarce resources. Supplies of fuel and power fell well behind the demands of both the steel and the heavy engineering industries and of light industry.

Ministries anxious to purchase foreign plant were running up potential foreign debts beyond the capacity of the country to repay. The muddle and deficiencies of management were summed up by Hua in his speech when he said that a quarter of the State enterprises were running at a loss.

In the first five months of this year industrial output has slowed down to a 5-6 per cent rate of growth. This happened partly because a strained economy was unable to sustain the former high rate of growth, but it also reflects a deliberate slowdown.

The present cuts to the leadership's plans are far more savage than had been expected even a few months ago.

Coal output, for instance is to be increased by a meagre 2m tonnes a year over last year's 618m tonnes, as compared with the 32m tonnes increase forecast in March. It is also clear from Hua's speech that the leadership now thinks that the economic situation is far graver than it had believed.

Judging by the figures given to the Congress, the overall direction of policy during the coming year is towards holding down both capital construction and expenditure to last year's levels. This compares with a 34 per cent increase of state construction outlays in 1978 to $24bn and a 31.7 per cent rise of expenditures to $68bn. The squeeze on expenditure is evidently intended to encourage economy in industrial enterprises and to streamline decision making departments through decentralisation. Hua has certainly in mind a greater devolution of responsibility.

Foreign trade importance

Within the overall allocation, expenditure on heavy industry is most heavily cut. It will absorb 47 per cent of investment in capital construction, as compared with 55 per cent last year. Steel and heavy engineering are the sectors most likely to be severely affected.

Surprisingly there is little sign of much expansion in coal, electricity or onshore oil production. In the coming year, power generation is to rise by only 7 per cent and oil output by 6 per cent—below the long term growth rates.

One reason is that marginally productive mines and generating plants may be phased out as part of the programme for reducing costs. But Yu Qiuli's projections foreshadow a faster growth for coal and electricity in the years ahead.

The share of agriculture in the capital construction budget is to rise from 10.7 per cent to 14 per cent. But total allocations for agriculture are larger because of the increase in the procurement price for agricultural products.

Surprisingly, the share of light industry in the capital construction budget is only marginally increased to 5.8 per cent. The leadership may however be counting on further foreign investment in light industry from joint ventures for which the total value of contracts concluded so far is almost $300m.

Peking seems keen to impress on the outside world the continuing importance it attaches to foreign trade. It foresees a 24 per cent increase of total imports and exports to $27bn following last year's already substantial increase of 38 per cent. That would seem to imply a trade deficit of about $3.5bn, which will be covered in part by foreign loans worth $2.5bn.

In spite of the sharp slowing down in the first quarter, the leadership expects that the industrial growth rate will climb to 8 per cent for the year as a whole. Even this may not be realisable if energy output expands as slowly as Peking apparently expects. Combined with a projected 2.5 per cent growth rate in agriculture it points to an overall growth of GNP below the long term trend of 6 per cent.

Expenditure problem

The leadership will have a major problem holding down expenditure to last year's level in the face of heavy demands for funds. A loosening of budgetary controls would leave little alternative to deficit financing with the attendant risk of inflation. Hua in a striking reference to the possibility of inflation in China's supposedly stable price economy implied that the increases made to agricultural prices might be passed on to the town dwellers.

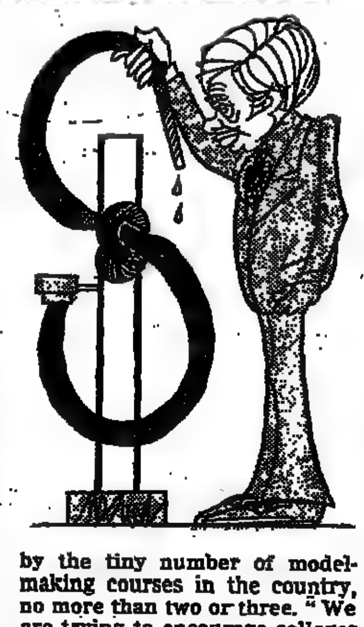
The best hope for that strategy is that in spite of the hardships that most Chinese will continue to endure, they will respond to the long-felt hope for better living standards. Hua said that in 30 years of socialism China had achieved far less than it should. The realism of the leadership in approaching the acute economic difficulties is a marked advance on the wishful thinking of the past.

But the task is made no easier by the continuing resistance to such policies from the supporters of the Gang who gained power during the Cultural Revolution, and the leadership itself is still divided.

Faced with lingering political problems as well as grave economic threats, reconstructing the economy in a mere three years presents a formidable challenge.

MEN AND MATTERS

Drilling for oil —in miniature



One unexpected shortage in the wake of the worldwide scramble for oil is of model-makers. While some might regard models, whether architectural or industrial, as little more than sophisticated boardroom toys, they are increasingly used in design. And they are becoming increasingly expensive. "A presentation model of an oil rig will cost around £10,000 to £15,000," I was told yesterday by Barry Keogh, managing director of one of the larger model-making companies, John Piper Models. "That's with a few moving parts. A design model can be anything up to £200,000." With a turnover of £500,000 last year, McKeogh expects to double that in 1979.

The growth area is not so much oil rigs, whose evolution appears for the moment to have ceased, as onshore petro-chemical plant. Design involves a myriad of different disciplines. "Each," says McKeogh, "will draw up a flow chart. There can be 200 pipes flowing in the same direction—the model will show exactly how the piping should be organised." He added unexpectedly: "It's very, very boring. Anyone who is really interested in model-making sticks to architectural models."

The tedium of making a logical spaghetti of miniature pipes may have something to do with the £6 an hour model makers can now earn. But even this is not enough to attract sufficient people. "I have just been down to Medway College where 10 students have finished a course. At least five of them are going straight to South Africa, where they will earn £12,000 each, tax free."

In the throes of developing plant to make petrol from coal, South Africa is currently trying to recruit 600 model-makers. In the South-East of England there are probably no more than 300 altogether.

The problem is exacerbated by the tiny number of model-making courses in the country, no more than two or three. "We are trying to encourage colleges to start courses," says McKeogh, who thinks two so far may have taken the hint.

Lost post

Those who have seen the empty taxis trundling around London carrying only a packet or a letter will not be astonished to learn that the many private delivery services are anticipating a boom in business. "So far the difference is no more than 5 per cent," I was told by Mercury Despatch, one of the oldest-established London companies. "But we expect it to start affecting us now. So far it has been a bit hit and miss, some mail was arriving and some not. I think it's taken this long for the Post Office dispute to sink in." During the 1972 strike, business went up 30 per cent.

Mercury Despatch's charges are fairly typical—a minimum of £3 coming down to about 60p per item in a large delivery.

However, not all companies are prepared to cash in on the Post Office's difficulties. At Courier Express, for example, I was told sternly that the drivers of its 400 vehicles, members of the TGWU, had been instructed not to break the strike. "If we are asked to deliver a letter or a small parcel, we ask outright 'Would this generally have gone by post?' If so, we won't take it."

Bowing out

"I see our organisation as a sort of pilot plant of the multinationals. When I first became charman the finance officer was in Germany. Nowadays it's a Frenchman who runs the business day to day and he and his financial officers are in Paris. We spend a lot of time on the telephone."

Peter Brooke, MP for the City and Westminster South, permitted himself these reflections as he cleared his desk at the Park Lane offices of Spencer Stuart Associates, Management Consultants, which he is leaving after 18 years, five as chairman, to devote himself to his duties as a junior whip.

Brooke himself set up the London office in 1961 and oversaw, among other things, the head-hunting in 1974 of Bob Fell, then secretary of the Export Credit Guarantee Department, as first chief executive of the Stock Exchange, and the recruitment of Sir John Methven as director-general of the CBI in 1976.

The man who is replacing Brooke, John Garnett, Director of the Industrial Society, will have his ideas on participation tested to the limit running an organisation which has offices and officers almost everywhere in the world, which, since 1974, is owned as well as controlled by the consultants themselves, and which has no physical head office. "Being a whip is rather like running a co-operative, too," said Brooke.

Cash trickle

The booming pound had a curious effect on the money markets of Kensington High Street on Friday. A colleague, not quite aristocratic enough to do without the stuff for the weekend, found himself queuing behind hordes of tourists sloughing off dollars and francs. Hearing a rumour in one bank that harder currency was being rationed to £20 per person, he rushed up the road to a branch of NatWest. A long wait later, he was greeted with the news that (rather in the manner of petrol stations), supplies were being limited to NatWest customers only. Reaching his own branch of Lloyds, 10 minutes away, he had better luck; but even there the supply of £10 notes was down to nothing. "Run on the pound," smiled the cashier, proffering crumpled fivers.

It is reassuring to learn that — at least according to the NatWest — these were local difficulties. Further away from Harrods, sterling is still in full gush.

Playing patience

The tennis craze seems to know no bounds. I was astonished on Saturday to see four men sitting at a card table mounting on the pavement opposite the Somerset Road gate at Wimbledon. They told me they were queuing for next Saturday's finals and were determined to be the first. No doubt they will be.

Wishful thinking

Overheard in a City florist's: Harassed-looking man — "I would like to order a dozen red roses to be delivered to my wife for our wedding anniversary."

"Certainly, sir. What date?"

Man, with agonised expression: "Yesterday."

Observer

FINANCIAL TIMES SURVEY

Monday July 2 1979

JAPAN

AND THE NEW INDUSTRIAL COUNTRIES

The emergence of four "new industrial countries" in East Asia—South Korea, Taiwan, Hong Kong and Singapore—is likely to change the whole pattern of trade between these countries, Japan and the West. This Survey examines the complex mixture of opportunities that is appearing for all those involved but with particular reference to Japan's development over the next few years.

A new set of rules

By Charles Smith
Far East Editor

THE REMARKABLE economic growth of Japan can be seen, in retrospect, as one of the most important events to occur in East Asia during the 1960s. The emergence of four "New Japans" may go down in history as the region's major contribution to world economic development during the 1970s.

The four countries—South Korea, Taiwan, Hong Kong and Singapore—are far smaller than Japan, individually and even collectively. They have relatively little in common with each other except that:

1. All have been forced by circumstances to seek rapid economic growth as an alternative to political disaster, and

2. All have linked their economies closely to that of Japan.

Yet, together, they seem to have an important message to deliver to the rest of the world.

The emergence of the Asian NICs indicates that Japan's growth "experience" can be repeated by other countries (which prompts the question: who comes next?). It also suggests that the traditional structure of world trade based on the pre-eminence of the industrial West, with room made rather reluctantly for Japan, may have to change out of all recognition before new industrial countries in Asia and elsewhere have finished emerging.

The NIC phenomenon, particularly as seen in Asia, has been that of small countries with limited home markets emerging almost overnight (at least from the viewpoint of the Western countries which buy their products) as spectacularly successful exporters. Both Korea and Taiwan have increased their exports by annual averages of over 40 per cent during the past decade and now rank as major suppliers to the West of textiles, electronic consumer goods, shoes, toys and a multitude of other cheap but well-produced manufactured products.

Hong Kong holds the undisputed title of the world's top exporter of made up garments while Singapore, after a latish start, has also joined the race to become a competitive manufactured goods exporter.

The four Asian NICs have export ratios (that is, the percentage of GNP represented by overseas earnings) ranging from just over 30 per cent in the case of Korea to 84 per cent in that of Hong Kong. All maintain handsome, and until now regularly increasing, surpluses on their trade with the West, while simultaneously incurring heavy deficits on their trade with Japan.

The "trilateral imbalance" that has grown up between Japan, the NICs and the West has developed into a major source of East-West tension (particularly between Japan and the U.S.) during the recent past. Yet, paradoxically, the imbalance as such does not seem to represent the core of the problem thrown up by the appearance of new industrial nations.

The reason why the NICs have been in surplus with the West and in deficit with Japan on an increasing scale during the past few years is that Western markets have proved the most accessible to their fast-growing manufactured exports while Japan has been the logical source of capital equipment and industrial materials needed to help build up their industry.

This dual dependence (on the West for markets, on Japan as supplier) could be about to give way to a rather more balanced set of relationships for a number of reasons.

Revaluation

One is that Korea, Taiwan and others are, at long last, attaining self-sufficiency (and even an export capacity) in some of the basic products they have had to buy from Japan in the past. The second reason is that the NICs' efforts to sell in Japan do at last seem to be paying off.

The revaluation of the Japanese yen (by 27 per cent against the dollar during 1978 alone) provided a major boost for all exporters of manufactured products including the EEC and the U.S. But "developing South-East Asia" (the Japanese statistical category which includes and mainly consists of the four new industrial countries) has been doing even better than its Western rivals in the Japanese market for manufactured goods during the past few months.

East Asian industries that now appear to be able to compete with their Japanese opposite numbers in third markets, and even to some extent in Japan's own domestic market, include petro-chemicals (now being exported to Japan by Taiwan); steel (exported by both Taiwan and Korea although the Japanese steel industry claims to have doubts about the quality of some Korean production); fertilisers (in which Japan is rapidly ceasing to be competitive); and ships (where Japan's home market represents a "sanctuary" for its industry but where third markets are increasingly likely to become a battleground).

Industries in which horizontal integration is spreading between Japan and the NICs (in part as a result of consciously planned investments by Japanese companies) include electronics, now the subject of $580m worth of two-way trade between Japan and Korea and watches where production seems to be developing according to a complex production sharing plan between Japan, Hong Kong and a number of other regional producing centres.

The expansion of horizontal trade between Japan and the NICs and the growing self-sufficiency of the NICs in heavy industry products such as steel and petrochemicals, seems to foreshadow a situation in which the East Asia of the future may come to look like the Western Europe of today—but with two important differences.

One is that Japan will remain the giant within its region, both in terms of the size of its domestic market and of its overall production capacity, to a far greater extent than any single Western European country has been able to dominate the EEC.

The second point is that the emergence of a community of horizontally-trading developed industrial states in the Far East may have to pass through more stages (though perhaps at a higher speed) than Western Europe passed through on its way to achieving a similar status.

The four offshore territories which constitute the first generation of new industrial countries in Asia are already facing problems which became familiar to Japan in the late 1960s—overcrowding, pollution and a shortage of skilled labour leading to rapidly escalating labour costs.

All of this means that there should be room for the emergence of a second generation of NICs in the shape of South-East Asian countries such as Malaysia, Thailand or the Philippines (assuming that markets can be found for the products of such countries and that investment capital is available to build up their industries).

A final question about the region's economic future, as seen from inside, relates to the modernisation of China. China shot into second position among Japan's overseas suppliers of textiles in 1978 and appears to have ambitions to follow up this success by exporting light electronics products (though only to the extent required to earn the foreign exchange required to pay for a predominantly domestically-oriented development programme).

Most Japanese observers of Chinese modernisation efforts take the view that their impact on the rest of East Asia will be neither sudden nor disruptive, even if the Chinese do achieve their dream of equaling the industrial strength of developed Western countries in the 1970s by the end of this century.

Observers in other Asian countries (such as Korea, which has to compete with China's textile exports) take a less calm view of the prospects although Korea remains interested in the scope, if politics allow, for co-operating in China's economic development.

If the Asian NICs continue to flourish (which they may not do if a world oil crisis intervenes) the consequences for other parts of the developed world could be varied as well as disturbing.

An initial and positive aspect of the process could turn out to be the gradual disappearance of the deficits most new industrial countries have been running with Japan and a corresponding increase in the ability of such countries to spare funds for imports from other parts of the world.

A parallel and less welcome development could be a steady increase in competition for entry to the Japanese import market with East Asia increasingly tending to challenge the U.S. and Europe as exporters to Japan of high-quality manufactured goods.

Asian watch, furniture and toy sales in Japan already have begun to rise sharply, apparently at the expense of similar products shipped from Europe and the U.S. Swiss watch sales for example have been falling fast in quantity terms in the last few years. Asian textiles are already strong except in the high fashion sector where France and Italy retain their lead.

Challenge

In future, more and more quality exports from Europe may face a direct challenge in the Japanese market and elsewhere from Asian industrial exporters.

A final problem posed by the emergence of the NICs and its impact on Japan involves future competition between Japan and the West in high technology industries. Japan's response to the challenge from its industrial neighbours seems to have been to give ground in industries where it has suffered an overwhelming loss of competitive strength (e.g. fertilisers, aluminium and some parts of the textiles industry) and to compensate by moving at a higher pace into advanced industrial sectors.

What this means in terms of global economic development is that the emergence of Asia's new industrial countries is thrusting Japan into sectors hitherto dominated by the U.S. and Europe more rapidly than would have been likely had it been left to its own devices.

In entering such sectors Japan suffers one major handicap—its weakness at developing original technology and its tendency to base most of its industrial advances on ideas borrowed from the West and subsequently "improved" in Japan. This major weakness is recognised as a problem by the Ministry of International Trade and Industry, part of whose job is to think of ways in which Japan can continue to flourish in the 1980s. Just because the problem is recognised there is a good chance that it may be overcome.

The situation which confronts Europe—and the U.S.—as a result of these developments is a complex mixture of opportunities and challenges. Western countries should be able to sell more (and invest more) in future in the emerging Asian industrial countries, if only because such countries have no wish to be economically dominated by Japan and stand to gain from the maximisation of their contacts with the developed world.

However, new industrial Asia, promises to be a competitor as well as a partner for the West, and Japan, under the impetus of trying to stay ahead of its fast-developing neighbours, could become a tougher competitor than ever.

It may be possible, as least in theory, for the industrial West to shut the door on what is happening in Asia both psychologically and in the sense of raising trade barriers against Asian exports. In practice the only realistic course may be to recognise that nothing ever will be quite the same again.

Political role still low key

FOREIGN POLICY

RICHARD HANSON

A RECENT public opinion survey in Japan on foreign policy found that only 23 per cent of the people asked felt that as their country had become a leading economic nation it should in the future aim to become a leading political power. The Japanese people, it seems, would be perfectly happy if their prosperity does not lead to greater responsibilities (and risks) than absolutely necessary in Asia and the rest of the world. Until recently Japan's post war foreign policy has reflected this sentiment totally.

Since regaining its status as a sovereign nation after the Allied occupation ended in 1952, Japan has pursued a very cautious form of diplomacy. With its security—and to a large extent its economic prosperity—virtually guaranteed by a close relationship with the U.S., successive governments have felt most at ease when emphasising Japan's own economic development at home and abroad. The objectives were nearly all self-serving, and Japanese diplomats developed a solid reputation for not taking initiatives.

The relationship with the U.S. has meant that Japan's affairs in Asia have been shaped as much in Washington as in Tokyo. Normalisation of ties with mainland China came only after President Nixon and Henry Kissinger took the first step. Japan was forced to back U.S. policies in Indochina and serve as a staging area for the war (though the Japanese were saved from direct participation in Vietnam by their U.S.-inspired no-war constitution). Japan, while strongly opposed to American plans to withdraw troops from the Korean peninsula, can only take the very diplomatic stance of hoping the plan will be implemented without endangering peace and stability there.

Content

The other Asian nations were perfectly content to see Japan tightly under the shadow of the U.S. Japan's former subject nations harbour strong suspicions over a more positive role (particularly if it involves a military element) for Japan in their affairs. The newly industrialised countries of Asia (Singapore, Hong Kong, Taiwan and South Korea) are eager to compete with the Japanese for the key world markets largely dominated by Japan.

Even China recognised toward the late 1960s the value of a strong U.S. presence in Asia, and of the U.S.-Japan mutual security pact, as a counterforce to the Soviet Union's desire to extend influence into Asia. The Russians in turn fear a strong Japan allying itself with China, which while still a developing country poses the greatest potential threat to Soviet interests in this part of the world.

A delicate balance of forces in Japan tends to make changes in policies and directions very slow and cumbersome. Any new policies at the national level, for example, require tedious agreements and consensus among all the various government Ministries and agencies, which in turn must balance their views with powerful private sector influences. Political factions and opposition party feelings must be taken into account. Very often at critical points in Japanese history it is the influence of outside forces, beyond the control of Japan, that have emerged as the most compelling origins of change.

The questions now facing Japanese foreign policy also involve significant changes in the external environment in which the nation has developed for the past 30 years. The major question is whether Japan will be forced to take up a stronger political approach in its affairs with the other nations of Asia. More important, will Japan be able to preserve what it defines as its national interests in Asia, relying mostly on its economic influence?

What has changed and how have Japan and others responded so far? The two most important developments have been the emergence of China from its partly self-imposed (partly cold-war enforced) isolation during the 1970s and the withdrawal under the Nixon doctrine of a dominating U.S. influence in Indochina, the war-torn underbelly of China. A third worrisome development is the steady growth in the Soviet military presence.

Fourthly, Vietnam is proving itself to be an unpredictable, aggressive and seriously destabilising force in the region—and not only because of its actions in Cambodia and Laos. Vietnam's attitude toward the refugee problem is also having serious social and economic repercussions in Asia.

In South-East Asia the winding down of U.S. power and unification of Vietnam led to an urgent feeling among the members of the Association of South-East Asian Nations (ASEAN) that they must be prepared to work much more closely together in order to cope with the new situation. Japan, in perhaps the most significant diplomatic move it has made in South-East Asia this decade firmly backed this revitalised ASEAN, a group it had previously taken rather lightly.

The former Japanese Prime Minister, Mr. Takeo Fukuda, enunciated during a summer 1977 tour of the five ASEAN states and Burma what came to be known as the Fukuda Doctrine. He assured them that Japan rejects the role of a military power and pledged to consolidate relations with what he called "heart-to-heart" understandings with ASEAN.

More important from the ASEAN point of view, Japan is supposed to aid in the development of five major industrial projects throughout the region. Progress has been slow so far, and there are always grumblings about how serious Japan really is about helping potential competitors to develop. But as a whole the Fukuda visit was productive—certainly more so than former Prime Minister Takeo Fukuda's South-East Asian tour which sparked riots in Thailand and Indonesia (though not solely for anti-Japanese reasons).

Relations with ASEAN can be expected to improve in a number of areas. Debates are going on over establishing a commodity price stabilisation scheme, for example. ASEAN and Japan, however, have not been able to reach any agreement so far as to the form such a scheme should take.

Relations with China have become complex. This is mostly because China, while undisputably a large and powerful nation, is still a developing country with all the added economic and social problems of a nation coming out of a long period of turmoil.

By breaking ties with the Nationalist Government on Taiwan, Japan was able to move fairly rapidly in developing trade and other exchanges. With the signing of a formal peace and friendship treaty and an economic agreement last year, the diplomatic ties have grown much more significant (though not yet as important as those with European countries,—to give some perspective). One recent development illustrates how Japanese diplomacy has shifted as a result of its closer relationship with China.

The exchange took place two or three days before a formal announcement earlier this year of China's intention to withdraw its troops from Vietnamese territory, which it had attacked as "punishment" for Vietnamese aggression against Cambodia (which China nominally supported in opposition to Soviet ties with Vietnam). China informed Japan of its decision to withdraw. Japanese diplomats then made it clear to Hanoi that any attempt by Vietnam at crossborder pursuit of the retreating Chinese forces (who had done very poorly against Vietnamese units) would prompt a very strong Chinese counter-attack.

Important

For the cautious Foreign Ministry it was an important "political" action which in earlier periods Japan would probably have avoided. Japan would like to play some role as a moderator in the peace talks being held between Vietnam and China, but it is difficult to see it as a major force in bringing about a settlement.

In its relations with Vietnam the Japanese Government first sent out hints that it would suspend its aid programme to Vietnam as a result of its attack in Cambodia (which came three days after the Vietnamese Foreign Minister paid a formal visit to Japan and assured officials that it did not plan to do so). The Foreign Ministry now sees continuation of the aid (Y14bn in all planned for this fiscal year) as the best alternative.

The U.S. role in Asia had been pre-eminent since the end of World War II. It is therefore somewhat surprising when one considers that during all the disturbing events in Indochina since the end of 1978 the U.S. has remained aloof, pre-occupied with what it considers more urgent matters such as the Middle East peace treaty and the situation in Iran.

The significance of this change has not been lost on Japanese officials. There is a tendency to take the view that Americans, having lost the war in Vietnam, think along the lines of a Hemingway character in "The Sun Also Rises," after World War I was over, simply wanted to forget about it and go home. This perceived U.S. attitude has strengthened a Japanese Foreign Ministry view that Japan will have to become more "political" in dealings with the rest of Asia.

This political role is still couched in very vague terms. In two interviews appearing elsewhere in this survey, Mr. Ganri Yamashita, director general of the Self-Defence Agency, states emphatically that Japan will not take on any regional military role. Mr. Ichiro Isoda, president of the Sumitomo Bank, makes the point strongly that without military power Japan cannot play a political role in Asia. (Though he is not advocating such a role.)

Outside influences will probably also decide how much Japan will strengthen its military arm. The internal debate on defence spending and the role of the military in Japan has become public and quite open over the past two years. The strongest advocate for a greater military role, however, has been the U.S. This dates from 1974, when the then Secretary of Defence Melvin Laird, first made the U.S. view very clear: Japan ought to shoulder more of the burden for defence in Asia. The U.S. appears determined to offset any Soviet build-up in the area with increments to the Seventh Fleet, but Japan is needed as a strong and stable (democratic) force.

A brief look at Japan's closest neighbours gives some credence to such a view. South Korea and Taiwan both take on the appearance of authoritarian armed camps, with very real threats facing them (much more so in Korea than Taiwan). Japan has very strong economic ties to both countries but it has had no formal diplomatic ties with Taiwan since 1972. Relations with South Korea always seem to be clouded by a tendency of both sides to see the worst in each other. The Japanese media tend to harp on anti-government news from Seoul, while the South Koreans (while admiring Japanese economic development) view their former colonisers with thinly veiled antipathy.

Clearly Japan will have to be very careful in adjusting to the new realities of Asia. Its most recent history shows that as a nation it can play a constructive role in the development of Asia economically. Official aid from Japan can help bridge the economic gaps that separate the poor and richer countries of Asia. Success in that role will probably determine how willingly the rest of Asia will accept a more sensitive position of influence among them on Japan's part.

Imbalances cause concern

TRADE

CHARLES SMITH

THE FOUR Asian new industrial countries or NICs (sometimes described more colourfully but less charitably as Developing Asia's Gang of Four) are still a long way from being giants as far as their role in world trade is concerned.

The combined exports of the four—Hong Kong, Singapore, Taiwan and Korea—in 1978 totalled less than half those of Japanese exports and not one of the four figured among the top dozen countries in world trade.

However, all four have been rapidly increasing their shares of world trade over the last four years. Korea, for example, increased its percentage from 0.6 per cent to 1.3 per cent between 1974 and 1978, while Taiwan moved up from 0.7 per cent to 1.1 per cent. And all have come to be regarded as "problem" countries to a greater or lesser extent by the advanced industrial West.

The outstanding characteristics of the Asian NICs, as far as trade is concerned, include an extremely high dependence on exports (ranging from 32.3 per cent of GNP in the case of Korea in 1978 to 84.8 per cent in the case of Hong Kong); a rapid, if not ultra rapid growth of both exports and GNP over the past few years, and a shift in the composition of exports away from raw materials and primary products towards increasingly sophisticated manufactured goods.

A survey by Japan's Ministry of International Trade and Industry reveals an annual average growth rate of 31 per cent in the manufactured goods exports of six NICs (the four Asian countries plus Brazil and Mexico) over the five years from 1971 to 1976 as against a 21 per cent increase in manufactured exports by the advanced industrial countries.

The impact of the four Asian countries' manufactured goods on the markets of the industrial West has been, not surprisingly, fairly spectacular. They increased their share in U.S. imports of TV sets from 12.6 per cent to 39.5 per cent between 1970 and 1975 while their share of the American market for textiles went from 23.8 to 40.5 per cent (Japan's textile market share over the same period fell from 22.6 to 11.1 per cent).

The NICs overtook Japan as exporters of black-and-white TV sets in the early 1970s and appeared to be replacing it in 1977 as the Western World's main suppliers of colour TV sets.

However, many of the hugely successful export industries that have been developed during the past few years in countries such as Singapore, Taiwan and Korea (to say nothing of Hong Kong's long-standing success as a garment exporter) have depended heavily on imports, both of capital equipment to establish the industries in the first place, and of sophisticated components or mass-produced industrial materials that could not be produced economically by the NICs themselves.

"Essential imports" for the support of growing export industries have kept the overall trade in manufactured goods of the Asian NICs in moderate deficit from 1971 to 1974 and permitted them a moderate but increasing surplus during the following three years.

However, balances with individual advanced industrial countries have been anything but moderate, in view of the fact that most of the NICs requirements of capital goods and industrial materials have come from Japan, while the bulk of their light industrial exports have gone to the U.S. and Europe.

The steady deterioration in the trade balances of the U.S. and Europe with three out of the four Asian NICs coupled with the simultaneous improvement in Japan's balances with the four countries is illustrated in Table I. The reasons for the phenomenon are not particularly hard to discover. Japan was the main foreign industrial investor in Korea and Taiwan from the mid-1960s onwards (except for a few years after 1972 when the normalisation of Japanese relations with China caused Japanese investors to "hold off" in Taiwan) and thus figured rather naturally as a major supplier of capital equipment and components for manufacturing projects in which foreign investment was a factor.

Japan has not invested heavily in Hong Kong (where industrial development over the past two decades has been largely self-financed and self-generated) but it has until very recently been the logical source of the semi-processed textile products which are the main raw materials for the Hong Kong garment industry.

In Singapore, where Japanese investment still ranks below that of the U.S. on a cumulative basis, the trade imbalance with Japan has grown less sharply than in the case of Taiwan and

CONTINUED ON NEXT PAGE

JAPAN'S IMPORTS OF MANUFACTURED GOODS

(quarterly rise over previous year—per cent)

From:	1978 I	1978 II	1978 III	1978 IV	1979 I	1979 April	1979 May	Share of total in May 1979 (%)
U.S.	13.9	23.2	34.0	48.4	48.1	51.0	33.0	28.1
EEC	36.9	41.8	53.6	55.4	32.1	23.0	40.4	22.5
South-East Asia*	15.6	30.3	50.5	63.3	69.1	70.1	71.6	24.3
Others†	25.1	20.4	51.3	78.0	71.8	54.8	50.1	24.6

*Includes South Korea, Taiwan. †Includes China.

NICs a growing threat

TRADING COMPANIES

CHARLES SMITH

ALTHOUGH virtually every industry in Japan can expect to be affected in some way or other by the emergence of the Asian NICs (newly industrialised countries) the group of companies which probably has most to gain or lose from the process does not belong to any industry in the sense of the term. It consists of the dozen or so general trading companies which collectively handle about half of Japan's foreign trade and a large (but undisclosed) portion of that of neighbouring countries.

Because the share of the Asian NICs in world trade is growing rapidly the Japanese trading houses have a strong interest in maintaining their present influential role in regional business. (This applies not only to trade with Japan but also to "third country" transactions between the NICs and other parts of the world.) Meanwhile, however, virtually all the NICs in Asia are showing signs of wanting to lessen their dependence on the trading houses and in some cases are trying to achieve this by setting up their own Japanese-style trading companies. The response of the Japanese houses to this situation has been an energetic attempt to present themselves as multinational all-purpose business organisations with regional interests at heart rather than narrowly Japan-orientated trading houses.

The fact that quite a lot is at stake in the relationship between the big Japanese traders and the Asian NICs can be grasped from a glance at some of the figures involved. The share of Asian trade as a whole in the overseas turnover of one major trader (a member of the so-called "Big Five" consisting of Mitsubishi, Mitsui, Itoh, Marubeni and Sumitomo) is put at around 20 per cent, with an annual value of some \$3.5bn and a growth rate probably exceeding 15 per cent a year. The \$3.5bn total breaks down into \$1.3bn of exports from Japan, \$1bn of imports into Japan and a further \$1.2bn of trade which does not involve Japan at all but consists of exports from the Asian countries (mainly NICs) to the rest of the world or imports from the rest of the world into the same countries.

The same company reports that its trade with South Korea rose from \$420m in 1975 to \$800m (in both directions) last year, while its two-way trade with Taiwan and Hong Kong amounted (in 1978) to \$420m and \$470m respectively. (The Hong Kong figure includes a significant amount of "financial switch" trade—i.e., trade financed through the company's Hong Kong office without necessarily passing physically through the Colony itself.)

The fact that the trading companies handle a larger share of each country's imports than its exports need come as no surprise, given that the same situation applies in Japan itself, where the trading companies are extremely strong as importers of raw materials but less effective as exporters of manufactured goods. New industrial countries such as Korea, however, which have good reason to be sensitive about their trade deficits with Japan, would be acting out of character if they did not also frown on the even bigger trade imbalances with individual Japanese trading houses. One big Japanese trader exported \$430m of goods from Japan to Korea in 1978 but imported only \$150m from Korea to Japan.

Efforts

This is one reason why efforts have been made, most notably in Korea but also in Taiwan, the Philippines and elsewhere to reduce dependence on Japanese trading companies, partly by administrative curbs (including tax measures) and partly by an attempt to foster the growth of home-grown "Japanese style" trading companies.

Korea, with 12 General Trading Companies (GTCs), which now claim to handle 31 per cent of the nation's exports, has taken the lead in this process. Taiwan passed a law last year setting out qualifications for and incentives available to "Great Trading Companies." The Philippines plans a similar programme and has asked technical assistance from individual Japanese trading companies (some of which have accepted while others have declined).

Japanese trading companies are sceptical, on what seem very reasonable grounds, about the chances that any of the newly organised Korean (or Filipino or Taiwanese) trading companies might actually prove a match for them in a situation of free and open competition. The biggest Korean GTCs are currently about one-tenth the size of the top ranking Japanese traders in terms of staff and somewhat smaller in terms of turnover, while their competence in terms of management, computer systems and accumulated business know-how is estimated by one Japanese competitor at roughly 20 years behind.

The advantage that the Korean GTCs do have, however, is that they are strongly favoured by their Government, which seems equally determined to see the share of Japanese trading companies in its country's exports and, more particularly, its imports undergo a drastic shrinkage. Because of this the Japanese trading houses have adopted a strategy which combines willingness to help their newly-established competitors learn the ropes with a fairly continuous plugging of the theme that they are unlikely ever to catch up.

Some Japanese trading houses now maintain regular training and know-how exchange programmes for Korean counterparts (an example is the relationship between Marubeni and Samsung Company). Others have agreed to take on agency or subcontracting business from Korean companies handicapped by a lack of contacts in specific overseas industries. An example of this type of arrangement was the assistance given by a Japanese trading house to a Korean GTC in importing coal after the Korean company had been successful in a Korean Government purchasing tender from which Japanese companies had been excluded.

Japanese general trading companies' notions of lending a helping hand to new industrial countries go well beyond the limited extent of co-operating with their opposite numbers in such countries. One important type of business which they have been developing for many years involves the progressive shifting of procurement of light industry products that were once made in Japan to the newly industrialised countries.

As one classic instance of procurement shifting, Mitsubishi Corporation now exports some \$300m a year of "chemical" (i.e., non-leather) shoes to Japan and the U.S. from suppliers in Korea, Taiwan, the Philippines and Brazil. The shoes are sold under well-known manufacturer or department store labels in each country and are produced in factories in which Mitsubishi holds minority capital stakes. The Japanese maker whose label appears on the Mitsubishi shoes was the original source of Mitsubishi's exports to the U.S. before Japanese wage costs moved out of line with those in neighbouring countries.

Mitsui (the number two Japanese trading company in sales but the leader in overseas investment) sees the emergence of the NICs as a challenge to its ability to generate new flows of trade in the region by a creative investment policy. Mitsui has been studying the NIC phenomenon intensively since late 1978 (when the subject was the main theme of an annual meeting in Hong Kong of its Asian business managers). In April, 1979, it set up a task force whose object was to propose specific investment projects that could be supported by Japanese Government aid funds besides involving general traders like Mitsui.

Wider

The terms of reference of the task force are much wider, Mitsui emphasises, than those involved in the traditional approach to investment planning (where one of the company's product-orientated business divisions usually initiated an investment simply in order to create additional demand for goods it handled).

Mitsui's approach is more wide-ranging but not necessarily more promising than that of Sumitomo Shoji (the number five trading house), which has set itself to reduce its trade surplus with individual NICs by searching out new products for import into Japan. The Sumitomo task force in charge of this project has collected about 300 sample products and hopes to start actual imports later this year.

The weak point about the trading houses' Asian business strategy would seem to be the inherent difficulty (for Koreans, Taiwanese and other Asian neighbours of Japan) in believing that a company with a name like Mitsubishi or Mitsui is as genuinely multinational as one named, say, Shell or General Motors. For this reason the general traders will no doubt continue to find themselves handicapped in their attempts to maintain or increase their share in the explosive growth of trade in and out of the new industrial countries. Despite such handicaps regional trade could become steadily more important to the trading houses, and their contribution to directing and creating new flows of trade in the region could prove to be of vital importance.

TRADE BALANCES OF THE ASIAN NICs

	With US		With EEC		With Japan	
	1973	1978	1973	1978	1973	1978
Korea (\$m)	−179	663	49	498	−485	−3,354
Taiwan (\$m)	725	2,634	110	365	−603	−2,108
Hong Kong (HK\$m)	3,123	7,606	*1,886	*3,250	−4,788	−12,549
Singapore (S\$m)	370	87	−225	−692	−1,580	−3,380

* UK and West Germany only.

Imbalances

CONTINUED FROM PREVIOUS PAGE

Korea (while Singapore's surplus with the U.S. has actually shrunk).

Why the NICs have not been more successful as exporters to Japan can be explained at least partly in terms of Japanese investment. Japan's electronic and other light industry investments in countries such as Korea and Taiwan were not meant initially to generate exports to Japan but to sell to third markets. in many cases (black-and-white TV sets, for example) replacing exports from Japan itself which were beginning to lose their competitive strength as the result of higher wage costs.

The products which NICs have exported successfully to Japan include textiles (from Korea and Taiwan) but this is a trade which has been handled not by major Japanese textile concerns (whose investments in Korea were aimed at third country markets) but by smaller Osaka-based textile trading houses having close links with traders and producers in these neighbouring countries.

Hong Kong, which lacks such links, has fared poorly in its attempt to penetrate the Japanese market for made up garments: indeed Japan in 1978 accounted for a mere 1.6 per cent of Hong Kong's non-fur garment exports.

Another major (but closely controlled) group of exports from the Asian new industrial countries to Japan consists of food and agricultural products. Roughly 25 per cent of Korea's exports to Japan and about 35 per cent of Taiwan's exports fell into this category in 1978, even though processed and unprocessed agricultural products accounted for only 10.8 per cent of Taiwan's exports to all destinations and 9.9 per cent in the case of Korea.

Formidable

Both Taiwan and Korea face a formidable array of quota and other non-tariff barriers on their primary product exports to Japan so that their sales in this area can be assumed to be considerably smaller than the "natural" level to which they might rise in a situation of free trade.

The difficulties faced by most of the Asian NICs in balancing, or attempting to balance, their trade with Japan seemed to get sharply worse in 1978 as the revaluation of the Japanese yen increased the prices of Japanese exports in terms of the dollar (or in terms of dollar-linked currencies such as the Korean won or the new Taiwan dollar). Taiwan's deficit with Japan rose from \$1.5bn in 1977 to \$2.1bn in 1978 while the Korean deficit shot up from \$1.7bn to \$3.35bn.

Because of these sharply-increased deficits (and because of mutterings from the U.S. and elsewhere about "unacceptable" increases in imports of light industrial products from developing Asia) both countries took steps in the second half of the year to slow down their imports from Japan and (simultaneously to encourage imports from their Western trading partners.

Taiwan despatched no fewer than three import promotion missions to the U.S. during the year and provided assistance to the U.S. Government in the opening of an American trade centre in Taipei. It also erected various administrative barriers against imports from Japan.

Korea's moves in the same direction included a selective liberalisation of import quotas which seemed designed to favour products in which European or U.S. industries were competitive. Korea is also said (by Japanese sources) to have issued "administrative guidance" to its textile industry to place machinery orders in the West rather than with traditional Japanese suppliers.

The Korean and Taiwanese measures are expected to produce marginally better figures for U.S. and European exporters over the next year or two (Korea, for example, hopes to eliminate its trade imbalance with the EEC in the not too distant future) and thus to take some of the steam out of Western demands for the curbing of light manufactured goods imports from these countries.

Worst

In the meantime, it is also beginning to look as if 1978 may have been the worst year for several Asian countries' bilateral trade with Japan. Korea recorded a \$970m deficit with Japan during the first four months of 1978 while Taiwan's trade gap amounted to \$569m—both figures representing a slight improvement if projected over the year on their trade performance in 1978.

What could prove to be of considerably greater interest and importance than the size of the trade deficits of these two countries is that, somewhere around the end of 1978, Japan apparently began to increase its imports from its Asian neighbours considerably faster than it was increasing its exports.

The factors behind the turnround in Japan's trade relations with the Asian NICs (assuming that a new trend really has set in) include at least one which is common to Japan's global trade, not merely its relations with neighbouring countries. The revaluation of the yen which at first merely served to boost the price of Japanese exports in world markets now seems to be having the effect of damping down overseas demand for Japanese goods, while the lower price of imported goods inside Japan has had the reverse effect of stimulating demand.

The imports which have benefited most from this process are the price-sensitive manufactured products which make up 86 per cent of European exports to Japan, 41 per cent of exports to the U.S. and perhaps 60 per cent of exports from neighbouring newly-industrialised countries. But the Asian group of exporters appears to have benefited strikingly more than the other two groups from the effects of yen revaluation judging by the rate at which its exports are increasing compared with their performance at the same time last year.

This could be either because Asian products are cheaper or because the sectors in which Asian exporters are most active (low-cost textiles, plastic products, simple electronics consumer goods and so on) are those in which Japan's own industry is at last ceasing to be able to compete, even in its own home market.

If the recent sharp increase in "developing Asia's" manufactured goods exports to Japan turns out to be a permanent trend rather than a mere flash in the pan, two important consequences will follow. The first is that the deficits of these countries should gradually diminish, which in turn means they should be able to afford to buy more from the rest of the world.

The second is that "traditional" exporters of manufactured goods to Japan such as Europe and the U.S. may face even stiffer competition in the Japanese market from now on than they faced in the past. European exports to Japan of light industry products such as furniture, toys and jewellery already have begun to fall while exports of the same products from neighbouring Asian countries are now rising sharply.

In future the area of "overlap" between manufactured goods exported by Europe and the U.S. and those sold by "Developing Asia" could widen considerably.

Survival the basic motivation

DEVELOPMENT STRATEGY

RICHARD HANSON

JAPAN AND the newly industrialised countries of Asia share one very important basic motivation for economic growth: —sheer survival. The South Koreans face a serious and unpredictable military threat from the North, and Taiwan risks absorption into the mainland with which it is still officially fighting a civil war (though not a shooting war at present). For Japan, the issue of survival must be traced back over 100 years when the leaders of Emperor Meiji's Government realised that only a strong modern industry would prevent encroachment on the nation's sovereignty by Western powers bent on colonialism.

The emergence of strong economies in South Korea and Taiwan over the past two decades in many ways resembles what has happened in Japan over the past century. Both Taiwan and South Korea, however, found themselves in states of even greater destruction and disarray as they began to plot development from scratch — neither had the long experience with industrialisation that had enabled Japan boldly to challenge (albeit unsuccessfully) the U.S. and Europe in a modern war.

A graph of Japan's economic development from 1870 would show nearly uninterrupted growth disrupted seriously only by World War Two and its aftermath. Owing to a fortuitous series of events (including the extension of U.S. aid after the decision was made in Washington that Japan needed a stable economy during the rigours of the Cold War era), Japanese industrial output exceeded prewar levels as early as 1951. (In 1948 the economy had been operating at two-fifths of the 1937 level.) It was not until 1960, however, that Japanese exports regained their pre-war peak.

Meiji planners, the forerunners of the Ministry of International Trade and Industry (MITI), set out in the 1860s and 1870s to establish industries which would work to strengthen the military. They built a modern munitions industry on the previous regime's base, textile mills (the first based on French and Italian models in 1870), cement plant, tile works, woollen mill to clothe the army, developed transport, etc. In 1880, according to G. C. Allen's "Short Economic History of Modern Japan," the Government owned or possessed three shipyards, 51 merchant ships, five munition works, 52 other factories, ten mines, 75 miles of railway and a telegraph system linking all the major cities.

The Meiji Government provided the seed money for private enterprise to develop (as did Taiwan and South Korea a century later), eventually passed Government projects to private hands and established a private banking system which was to play a crucial role in the rapid expansion of Japanese industry in the post-World War II period.

Lessons

Japan, as perhaps the original NIC, concentrated first on building industries which would provide substitutes for imports—a strategy adopted in initial stages of development in Taiwan and South Korea. Exports consisted mainly of raw materials of which raw silk and tea were the most important. Imports of manufactured goods, most importantly textiles, rose rapidly and included machinery, ships, railway equipment, munitions and other manufactured metal products. (Great Britain held about half the import market, not only because of high quality products, but as a result of a highly developed organisation for conducting foreign trade, experienced trading houses and financial machinery. These lessons the Japanese and other NICs have learned well.)

Japanese manufactured goods were low on the list of exports and mostly came from small-scale industries. A highly developed small-scale industrial sector would prove to be the underpinning of Japan's later economic success, by providing a buffer on which large industry could develop. Japan still does much to protect the small and medium sized entrepreneur. South Korea by contrast has concentrated heavily in recent years on building up the heavy industrial sector for exports, while Taiwan, like Japan, has achieved much of its initial success in exports as a result of smaller, light industries.

All three countries entered periods of industrialisation with large agricultural populations from which to draw workers. In the 1920s, Japan saw a shift in employment in agriculture, forestry and fishing from over 50 per cent of the total, and the percentage has dropped to 23.5 per cent as of 1965, 12.7 per cent in 1975 and is projected at only 8.8 per cent by 1985.

South Korea and Taiwan both had about 38 per cent of their total population in agriculture in 1977, Taiwan having broken the 50 per cent mark in 1957 and South Korea dropping below 50 per cent late in the 1960s.

Travelling in South Korea or Taiwan now testifies to the depth of the influence Japan's development has had from the 1950s onward. The machinery in most plants, the products on department store shelves (Japanese or products similar to those produced in Japan), cars, trucks, the subway system in Seoul all bear the mark of Japan. Even more important for their development than the signs of Japanese post-war success, however, is the experience both countries had while under Japanese control before the war.

The Japanese were harsh administrators in Korea, crushing nationalism and attempting to force Japanese language and culture on the local populations. They also provided the basis on which those economies would expand, more so in Taiwan than South Korea.

Taiwan served as a major source of agricultural products for Japan (about 25 per cent of its rice before the war). Japanese administrators organised and developed this sector and at the same time introduced rail and port facilities. Japan also built a number of heavier industrial projects, many of which were destroyed during the war, but which did introduce the island to modern industry.

Ravaged

In Korea the heavy industry was concentrated in the north, which left South Korea virtually bare of all but light manufacturing and agriculture after the division. The entire Korean peninsular was ravaged by the Korean War. The Japanese, however, left the country with a tradition of efficient bureacracy —one which was to flourish in *the 1960s and 1970 as the prime* mover behind rapid economic growth.

South Korea appears in many ways to have consciously followed the Japanese model for development. Japanese companies were fundamental in helping to establish certain key industries, like textiles and electronics, through investment and joint ventures. In fact, Japan provided about 60 per cent of the foreign investment in South Korea and about an equal amount of the technology it has brought in from the outside.

The South Koreans in their drive to boost heavy export industries have opted for the broad business groupings that form the core of the Japanese economy. The centrepiece for these groupings are the Government mandated General Trading Companies, imitating the Japanese giants, through which the Government is attempting to funnel its export drive. The key industries which Korea has selected for development, like shipbuilding, steel, cars, petrochemicals and textiles are not only modelled after Japan but are directly competitive with Japan.

In Taiwan, the Nationalist Government has taken a much more cautious approach to heavy industry. In the early 1970s plans were drawn up for shipbuilding, steel and petrochemical industries—but the scale of these indicates more concentration still on substituting for imports rather than gearing up for heavy industrial exports as is the case in Korea. The Government has recently offered some incentives for the development of large-scale trading houses and is encouraging large-scale businesses, but they do not seem to suit the Chinese businessman's mentality. The 10,000 small trading companies in Taiwan (which has a population of only 17m) testifies to the depth of individual, small-scale entrepreneurship.

The Government's economic planners are moving now towards more sophisticated, high-technology manufacturing industries. It sees these as a natural step from the lighter electronic, textile and assorted industries which at present (along with the traditional agricultural sector) make Taiwan's exports as large as those of South Korea (which has twice the population).

The similarities between the NICs and Japan can perhaps be summed up as those of resources *(very few)*, the *fact that post*-war reconstruction served as a spur for rapid growth, efficient central bureaucracies with Government agencies defining goals, the close relationships between Government and business, a common cultural basis for the political and social systems (Confucian), and a high degree of literacy and education.

Japan, however, is not as dependent on exports and has a highly developed economy which dwarfs its neighbours (China excluded). Direct Government involvement and ownership in industry, though a key factor 100 years ago, is much less important today than in the NICs. Japanese defence spending has not been a major factor in development since the last war, while it is a very important concern in South Korea and Taiwan.

Japan has developed without major incursions of foreign ownership and investment (while enthusiastically enlisting foreign advice and technology). Taiwan and South Korea were heavily dependent on such investment. This is perhaps due to the critical role the well developed banking system in Japan played in funnelling capital to companies which were expanding at a pace well beyond constraints that balance of payments should have imposed. Japan can also rely on a strong tradition of high rates of personal savings, which is true in Taiwan but only recently so in South Korea.

The major disruptive force for Japan while it was expanding in the 1950s and 1960s was balance of payments weakness, while a country like South Korea is plagued with a much more ominous problem in inflation. (Taiwan, partly because its leadership from the mainland feels inflation was a major reason for its defeat by the Communists, has been much more zealous and successful in controlling inflation.)

Sense

It must also be remembered that Japan since the war has been *recovering* from a serious setback; the NICs are *developing* countries in every sense of the word.

Finallay, one must come back to the motivation for development. Japan's crucial period for confronting the question of survival was a century ago. Barring some unthinkable calamity, Japan's survival is assured. It can now turn its economic strategies toward consolidating the economic gains it has made. It can even afford the luxury of thinking these newly industrialised countries are developing as extensions of its own economic success, and within its economic sphere of influence.

For the NICs, survival is still *a matter for the present and* future. The development of South Korea is taking place under the guns of the North. The capacity to defeat a Northern attempt at takeover, or perhaps launch its own offensive, may account for planning of huge strategic industries to match the North. Its development has been aggressive.

Taiwan faces a very different environment. Present conditions virtually rule out an invasion militarily by China; the cost would be too great. Instead, Taiwan's aim must be to continue for an indefinite period of time to remain self-sufficient economically and independent politically.

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Heavy dependence on imports

RESOURCES

TAIT RATCLIFFE

DURING 1978 Japan's per capita Gross National Product expressed in dollar terms came very close to that of the U.S. Japan's extraordinarily rapid approach to the state of a mature industrialised economy was further evidenced by a massive rise in capital exports during 1978 in the form of direct investments, syndicated loans and bond issues for overseas borrowers.

But despite this clear evidence that Japan is a mature economy, moving rapidly toward the status of a capital-exporting nation, one basic difference sets it apart from other industrialised nations. That is its very heavy dependence on external sources of raw materials to feed its modern industries.

Although all major industrialised nations depend to some extent on external sources of raw materials, the extent for such key resources as petroleum, for example, is far greater in Japan. As recent experience has suggested, this implies a much greater sensitivity to fluctuations in the price and supply of such resources. The implications have been quite apparent since the end of last year, when a combination of a weakening yen and increases in the price of oil and certain other imported commodities brought a rise of more than 30 per cent in Japan's import price index between October, 1978, and May, 1979—and now threatens to bring inflation levels in wholesale prices into the 6 to 7 per cent range for fiscal 1979.

Among the advanced nations Japan's economy has clearly been one of the most sensitive to the availability and pricing of resources. The adverse effects of rising resource prices on the value of the yen in turn have tended to exacerbate Japan's sensitivity to rising raw material prices.

With the emergence of Korea and Taiwan as rapidly industrialising nations, there is evidence that we may be on the threshold of an era when the drive toward higher and higher levels of income through industrialisation along the lines followed by Japan will lead to increasing pressures on existing resources.

The accompanying table suggests Japan is very much the giant in economic terms in the Asian region. Japan's per capita Gross National Product is still a substantial multiple of that of even the wealthiest Asian nations. Nevertheless, the average rate of expansion of the Asian nations shown in the table (excluding Japan) between 1972 and 1976 ranged from 6.5 to 11.2 per cent annually in real terms.

Although some nations have abundant supplies of various resources, and several, such as Australia and Indonesia, are already major suppliers of resources and have significant reserve potential, the needs for resources are likely to rise at an even faster rate than the incomes of the nations in the region as they move into more energy and resource-consuming industries.

The crisis in Iran has already provided a prelude to the problems which may be faced during the closing decade of this century as the developing nations of Asia as a group approach levels of income and resource utilisation comparable to Japan's in the mid-1960s. Information recently made available by the Ministry of International Trade and Industry (MITI) indicates that Japan may experience a shortfall in oil supplies in 1979 equal to 10 per cent of its requirements. Reports from Korea and Taiwan also suggest the possibility of shortfalls of comparable magnitude.

Having recognised that a problem may exist, it seems appropriate for economic planners to consider whether the solutions and policies to date have been appropriate and can be continued with the desired effects.

Japan's solution to the problem of providing sufficient resources at stable prices for the long term has been a far-sighted policy of investment in the development of overseas sources wherever possible. Its underlying attitude has been that while resource prices rise, so long as the industrial structure is upgraded and productivity is increased it should be able to purchase the required resources. In brief, so long as resources are available at some price, the nation with the higher rate of productivity increase and purchasing power should be able to obtain them.

Another Japanese policy closely related to investments in resource development overseas has been diversification of supply sources. This is most dramatically evidenced by the fact that whereas about 31 per cent of Japan's oil supplies came from Iran in 1973, by 1977 the proportion had been reduced to 17 per cent.

A third Japanese move for solving the resource availability problem has been the shift to alternative resources whenever possible. In electric power generation the major changes over the past decade have been increased utilisation of LNG and LPG as a source of energy and a shift to nuclear power. Leading power utilities, together with other private interests and governmental organisations, have also been engaged in research on (a) new types of power generation such as the use of force generated by expanding LNG as it moves from a liquid to a gaseous state to generate energy; (b) alternative energy sources such as liquefied coal; and (c) more efficient transmission through ultra high voltage transmission.

A further step aimed at reducing Japan's dependence on primary resources has been to invest in more offshore processing facilities. In some industries there has been a gradual transition towards the import of intermediate or final products rather than raw materials. Since the raw material resource component in these latter products must be smaller than in the case of 100 per cent raw material imports, the impact of resource cost increases on price levels is reduced. In addition, the import by one country of greater amounts of intermediate or finished products, permits exporting nations to create more jobs and increase their incomes.

To sum up then, Japan's policy on resources has been to invest in development of future supply sources, diversify its sources of supply, seek alternative resources and shift some processing of raw materials offshore to provide greater incentives in the supplying nations for resource development.

It appears that each of these policies can be pursued to the benefit of Japan and the new industrial nations in the coming years. The questions which remain, however, are (1) Are investments currently being made at the appropriate level, given information on future requirements? (2) Can investments in new sources of supply and alternative resources be made more efficiently than at present? (3) Is the co-ordination of resource policies among various nations sufficient?

PER CAPITA INCOMES

		GNP ($bn)	Per capita
Japan	(1975)	490.7	[illegible]
	(1976)	554.4	4,917
Korea	(1975)	19.1	541
	(1976)	25.3	707
Thailand	(1975)	14.5	347
	(1976)	16.3	379
Philippines	(1975)	15.8	371
	(1976)	17.8	407
Malaysia	(1975)	9.3	780
	(1976)	11.0	894

Source: United Nations

Central clearing house

TECHNOLOGY

CHARLES SMITH

TECHNOLOGY licensing agreements signed with Japanese companies have provided the basis for a vitally important part of the industrial development of Korea and Taiwan over the past couple of decades. This is not the same thing, however, as saying that Asia's new industry stands on Japanese technological foundations. Almost all the know-how that Japanese companies have licensed to eager purchasers in developing Asian countries has consisted of U.S. or European ideas "improved" or elaborated in Japan (or in some cases merely sub-licensed in their original form). Japan has thus acted as an Asian technological clearing house or as a distribution channel for Western know-how in the Far East.

The importance of this role would be hard to exaggerate, given the extent to which almost all industrial development in the region has been modelled on ideas originally developed in Europe and America. Japan's ability to continue playing the middle-man between East and West may, however, turn out to be limited in future. One reason for this is that neighbouring Asian countries are showing a desire to lessen their technological dependence on Japan (and increase the flow of ideas and expertise from the West). A second point is that Japan itself is facing increasing difficulty in inducing technology from the West.

The facts of Japan's position in the world-wide interchange of technology are well documented in a series of surveys published by the Science and Technology Agency and the Prime Minister's Office (a government department whose work includes conducting statistical surveys). These show that Japan is in deficit on its international technology trade by approximately two to one (if ongoing as well as new contracts are included) but in substantial surplus with developing regions, including East Asia (which ranks as the largest regional customer for Japanese know-how).

Just under 40 per cent of Japan's total overseas technology sales (by value) were made to other countries in the Far East in 1977 (1978 figures not yet available), while no less than 99.8 per cent of its technology imports came from the U.S. and Europe. If one looks at new contracts only, Japan turns out to have been in surplus on its international exchange of technology since 1972, with 1977 sales running at about 50 per cent of imports. This, however, does not alter the geographical balance, which is one of continuing dependence on the West and continuing passing-on of knowledge to neighbouring Asian countries.

Japan's position as a clearing house for technology derives from a number of internal and external factors, some negative and some positive. The major negative factor would seem to be the continuing inability of the Japanese private and public sectors to generate basic new ideas which would enable the country to emerge as a source rather than a processing centre of industrial technology.

Japanese officials say that the nation's social and educational systems, by encouraging team work and discouraging individual enterprise, have inhibited the kind of original thought which produces "basic" technological breakthroughs in the West. What they do not deny (and this is where the positive side of the picture begins to appear) is that the very same tradition of team work has made the Japanese highly successful at tinkering with, and improving on, other people's inventions.

Classic instances of success in this field include the perfecting by the Japanese steel industry of oxygen furnace steelmaking techniques and continuous casting techniques originally developed in Europe—with the result that steel is one of the two Japanese industries which currently has an overall positive balance on its international technology trade.

The other positive factors which have enabled Japan to acquire its key role in the transfer of technology to developing Asian countries are the more obvious ones of proximity and cultural affinity. Japanese engineers and technicians have had an easier task of educating counterparts in Korea and Taiwan (though not necessarily in Hong Kong or Singapore), than Western engineers would have had—besides being more ready to accept long postings in the countries concerned.

In addition Japanese trading companies (or some of them) have made a speciality of ferreting out opportunities for the sale of know-how to Asian neighbours. Hence the position in Korea, for example where Japan was the source of 487 out of 737 know-how agreements signed with foreign licensors between 1962 and 1976. (The U.S. was second with 158 cases, leaving France and West Germany far behind with 23 and seven cases respectively.)

There have been a number of notable instances of on-licensing to Korea of basically European technology by Japanese companies. One of the earliest and most important involved the establishment (in 1965) of what was then the world's largest urea fertiliser by the Samsung group using technology licensed by Mitsubishi Corporation.

Japan's dominant position as the immediate provider of industrial technology used by emerging Asian countries has not surprisingly involved it in controversy from time to time. The Koreans have complained about restrictive conditions attached to some technology agreements (for example, with regard to marketing) and the outdated nature of the know-how provided by others.

The result has been a tendency for the Korean Government to "guide" companies to buy their know-how from source—even if this proves more expensive than buying it from Japan. Simultaneously with the growth of resistance in new industrial countries to the purchase of technology from Japan there has been growing opposition in the West to the sale to Japan of new technology (mainly because of the belated realisation of what Japan has been able to do with its acquired know-how).

This trend has been publicly — and anxiously — commented on by government agencies such as the Science and Technology Agency (which also attribute the slow-down of Western technology sales to the fact that the post-war technology gap between Japan and the West is anyway beginning to close). It can be documented by a decline since 1973 in the number of new know-how agreements signed annually between Japan and Western countries and by a steady increase in the number and range of restrictions placed on Japan's use of technology by the Western sellers (for example, restrictions on the area in which products made with the technology may be sold).

The Japanese Government's recipe for dealing with the drying up of Western sources of technology is to try to stimulate cross-licensing deals between Japanese and Western companies, but such deals still constitute only a very small proportion of the total technology exchange between Japan and the West. A real assault on the technology problem presumably depends on Japan finding the means to increase the resources it puts into basic research and into the cultivation of individual qualities needed for generating new ideas. While Japan is trying to achieve this the chances may grow for Europe and America to promote a direct exchange of technology with the newly industrialised countries.

JAPAN'S TECHNOLOGY TRADE (1976—per cent)

IMPORTS (Y177.3bn)	
From:	
U.S.	64.6
W. Germany	11.0
Switzerland	7.1
UK	6.2
France	4.1
Others	7.0
EXPORTS (Y83.4bn)	
To:	
East Asia	
Total	38.4
China	9.0
Korea	8.4
Taiwan	5.8
Indonesia	5.4
Europe	
Total	26.0
Italy	6.6
Holland	1.9
W. Germany	1.3
France	1.2
UK	1.0
N. America	
Total	15.5
U.S.	9.5
Brazil	6.6
Others	13.5

Note: Figures cover new contracts and contract renewals.

Essential role in region's growth

INVESTMENT IN ASIA

JAMES ABEGGLEN

A SUBSTANTIAL Japanese investment presence in East and South East Asia is critical to Japan's continued economic success as well as a key factor in the rapid growth of East Asia's economies. It is basic to Japan's economic strategy that new capacity in labour-intensive and energy/raw material intensive industries shifts offshore as Japanese domestic investment moves to higher value added sectors. This shift provides vital technology and capital to developing Asia, while Japan is the necessary market for much of these goods. The process is a mutually beneficial one, which can lead to "co-prosperity" in the best sense of the term.

Japan's need for a rapid increase in offshore investment has been well recognised. In the periodic views of the future put forth by the Industry Structure Council of the Ministry of International Trade and Industry, overseas investment amounts totalling $90bn have been suggested for as early as 1985-86, compared to the current modest total of some $25bn. The oil crisis of 1973 and the subsequent economic crisis have slowed the rate of increase, and Japan is only now returning to the peak level of foreign investment reached in 1973. The forces working toward further increases are substantial, however.

The economies of North East and South East Asia are now the principal focus of Japanese investment. This has not previously been the case, since Japan was earlier putting in place the service and financial foreign investments necessary in support of the economy's trade position in North America and Western Europe. However, over the past decade, the emphasis on overseas investment has shifted to manufacturing, and the proportion invested in Asia has been rising rapidly. Asia now is host to 30 per cent of Japan's foreign investment, and the current total, some $5bn, is already about equal to the U.S. investment in the area.

Another measure of the *special attention paid to Asia* is the number of subsidiary companies established in various areas. These are already substantial for some Japanese companies. For example, the leading foreign investor among Japanese manufacturers, Matsushita Electric, has already more than 50 subsidiary companies overseas, with a combined sales output of nearly $1bn. In 1977 Japanese firms are reported to have established 250 foreign subsidiaries. Of these, 40 per cent were in Asia, with Singapore alone host to 23. (Note *that Asia for Japanese investment* tends to stop at Thailand: Japanese investment in South Asia—India, Pakistan and elsewhere—is of little importance.)

The factors that have brought about this level of investment are likely to remain effective, and to be reinforced by the increasing value of the yen, making foreign assets less expensive in yen terms. With respect to East Asia, these forces for increasing overseas investment by Japan can be seen in two main thrusts.

Labour costs in Japan are a *principal factor working to* bring about Japanese investment in the area. Japan's labour rates are now high. In the consumer electronics industry, for example, Japan's labour rates are now nearly twice those of the United Kingdom. More important, Japan's rates are 10 times those of South Korea. Rather clearly then, Japanese firms under cost pressure in labour-intensive industries find the prospect of investment in Korea, Taiwan, Hong Kong and Singapore attractive.

As a footnote to the labour issue, it might be noted that these economies of developing Asia are the ones dominated by Chinese cultural patterns if not by ethnic Chinese. The quality of labour is high. The kind of labour *discipline* that Japanese firms have learned to manage domestically is available in these Chinese/Confucian cultures.

This shift of labour-intensive manufacture to developing Asia is indicated by the scale of Japanese investment in the area. Looking at the scale on an approval-basis (applications approved by the Ministry of Finance for foreign investment) the average of Japan's investment in all of East and South-East Asia is small, typically $500,000 or less. The number of investments is substantial, however.

The Korean case is perhaps the prototype of Japan's position in this type of investment. This very fast growing economy, strongly export-focussed, had a total of 668 Japanese investment projects in place by the end of 1977. This is more than three-quarters of the total of all foreign investment projects in Korea. It is the Japanese who are making *the running in taking advantage of Korea's growth and Korea's strength as a base for export-oriented manufacturing operations.*

In contrast, the UK was reported as having undertaken only four projects in Korea to that date, and indeed all of Western Europe together totalled less than 5 per cent of the cases of foreign investment in Korea. The Japanese projects tend to be somewhat smaller in capitalisation than other foreign investments, averaging under $1m each, but nonetheless they account for 60 per cent of the total of foreign investment, while all Western Europe is only 20 per cent of the total.

This strong, indeed dominating, Japanese presence in Korea is in fact rather against the efforts of the Korean Government, which makes no secret of its interest in increasing U.S. and European involvement in order to avoid too-large a Japanese presence. It would appear that Western negligence or disinterest, combined with *Japanese interest, combined* with the geographic advantages of Japanese companies with respect to Korea, are providing Japanese companies with the major opportunity.

This pattern of a great many investments, each rather limited in size, is the general one for most Japanese investment in the area. One reason for the limited scale is the fact that those investments are often in light industry and assembly, where only limited capital is required. Another reason is the interest of the Japanese in joint ventures rather than wholly owned operations, and a desire to include local capital participation. Often the local partner has only limited capital available, and the venture is financially structured to accommodate him.

This investment pattern is likely to continue to prevail with respect to Japanese investment in South Korea, Taiwan, Singapore and Hong Kong — investment for access to efficient, inexpensive labour; investment in search of an export base; investment to supply both the domestic Japanese market and of world markets; investment largely in light assembly and textiles.

There is another, equally important category of Japanese investment in east Asia, focussed on raw material resource developing and processing. The reasons for Japan's investment abroad in this sector are many and pressing. From the Japanese domestic point of view, most of these industries — pulping, refining, smelting and reducing of materials and ores — are energy intensive, and Japanese energy costs are quite exceptionally high. Land costs in Japan are high; further, sites for additional capacity for this kind of processing are difficult to obtain. Pollution control requirements are stringent and costly, amounting now to some 20 per cent of total plant and equipment investment, and higher than that proportion for these pollution prone businesses.

In consequence, Japan needs to put incremental capacity in a range of industries centring on raw materials offshore. In fortunate coincidence, host countries with supplies of these raw materials are eager that value be added to the materials before their export. Thus the supply of Japanese capital and *technology along with* the assurance of access to the very large Japanese market for the materials is *welcomed. For* Japan, this means assurance of vital material supply, as well as making economic sense.

Indonesia is the prototype for this category of Japanese investment. A quite exceptional proportion of Japanese foreign investment, some 15 per cent of the cumulative world total, has so far been invested in Indonesia. The average approved investment proposal is very much larger than is the case for the rest of the economies of East Asia, some $4.5m in contrast to the more typical $500,000. This total is no doubt askewed by such very large projects as the Asahan bauxite refining project being led by Sumitomo Chemical. It is, however, just such projects that represent the importance of Indonesia for Japan's future.

In fact, Indonesia is so important in Japan's overseas investment pattern that it is second only to the U.S. as a site. Considering that the U.S. is host to a considerable amount of Japanese investment in trade and finance, it seems likely that Indonesia is the single largest site of Japanese foreign industrial investment.

The interaction is a mutually useful one. Indonesia needs Japanese investment for development of a wide range of resources—petroleum, timber and non-ferrous metal ores. Japan needs the materials and indeed is the only market for much of this output. The addition of value to the raw materials in Indonesia improves Indonesia's ability to purchase higher level goods from Japan. As with Japan's investment in search of labour, the cycle is a mutually beneficial one.

A similar pattern, although less striking, applies with respect to the Philippines and Malaysia. Labour supplies in these economies are less attractive, development of raw material sources is highly attractive.

This immediately raises for the Japanese the issue of acceptance. The historic U.S. problem regarding Latin America — the exploitative colossus of the *north*—can be replayed in an Asian context. This issue of attitudes and policies toward Japanese investment is a complicated one. Certainly there has been a fashion to describe the Japanese as unwelcome in much of Asia. Hard evidence on the matter is more difficult to come by. Is this likely to be a major problem?

There can be little doubt that there are and will be tensions around Japanese investment. There is little indication, however, that investments to date have been deferred or interfered with as a result of hostility arising out of issues of exploitation or hostility. The unofficial Indonesian Government position is *put* plainly—foreign investment is required, and if it be Japanese, so be it. It is our task to control and direct that investment. If we fail to do so, it is our failure.

The plain fact is that South East Asia needs Japanese investment, and it is in mutual interest that it be made, and fondness has little to do with the matter. It is further a fact that the Japanese are sensitive—even hypersensitive—to the problem. Thus joint ventures with local partners are sought, which helps to mitigate potential problems. Negative local reactions are probably exaggerated in the telling and do improve host country negotiating positions vis-a-vis Japanese investors. Economics look like overriding, in any event.

These large resource-focussed projects suggest an interesting issue for world trade in the 1980s. These investments are world-scale, in order to achieve maximum economic efficiency. They are likely in their early stages of output to provide surplus product, greater than the local and Japanese markets can absorb. There may well result a new factor in world trade—competition in U.S. and European markets from materials from South East Asia developed by Japanese capital, but not Japanese in origin. This might well include petrochemicals, aluminium ingot and other products where Japan has not before been a competitive supplier.

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Open door policy towards NICs

PROTECTIONISM

DICK WILSON

THE MOST surprising aspect of Japan's trade relations with the four new industrial countries of the Western Pacific basin is how little it protects its domestic industries against their exports of manufactures. There are almost no quantitative restrictions of the kind which the EEC and the U.S. have increasingly imposed on their chief Third World suppliers. Korean shirts, Taiwan sheets and Hong Kong menswear enter the Japanese market unrestricted, since Japan alone of the advanced industrialised countries has not sought to take advantage of its rights under the GATT Multi-Fibre Arrangement to regulate textile and clothing imports in the event of market disruption.

Moreover, most of the manufactures coming into Japan from the East Asian newly industrialising countries (NICs) enter at a preferential rate of duty under the UN Generalised System of Preferences (GSP). No less than a fifth of Japan's import of global manufactures originates from South and East Asia, mainly from the four countries under discussion, a share only marginally below that supplied by the entire EEC.

Textiles, including clothing, provides the oldest case history in this complex relationship. Indeed it was the American restriction of Japanese textile exports in the 1960s which gave the NICs their first opportunity to follow boldly in Japan's industrial footsteps. U.S. importers desperate for new sources of cheap supplies after the "closing" of Japan virtually pleaded with Korean, Hong Kong and Taiwan manufacturers to enlarge their capacity to *meet the new situation—and* that boom has gone on almost *ever since.*

But the Japanese were sensible enough, both at the manufacturing investment and the official guidance levels, to phase out the cheaper end of their textiles industry. Labour-intensive facilities were located abroad, typically in the NICs,

JAPAN'S TRADE WITH NICS
($m)

	Imports		Exports		Balance	
	1973	1977	1973	1977	1973	1977
Korea	1,207	2,113	1,789	4,080	+582	+1,968
Taiwan	*891*	*1,289*	*1,642*	*2,553*	+751	+1,264
Hong Kong ...	277	348	1,118	2,320	+841	+1,972
Singapore ...	233	687	980	1,719	+707	+1,032
TOTAL ...	2,598	4,437	5,479	10,672	+2,881	+6,236

while home plant was made more sophisticated and automated. The process is ongoing; the Ministry of International Trade and Industry (MITI) estimates that between 10 per cent and 30 per cent of the textile plant in operation at the beginning of the current fiscal year will be scrapped by its end next March. The Japanese *textile industry still accounts for* 9 per cent of the nation's industrial output and employs 1½m people. But MITI is less rent by the clamour of near-bankrupt textile industrialists for protection than its counterparts in the EEC and the U.S.

The result is that these imports are booming. Last year all woven fabric imports doubled, while those of yarns trebled; clothing imports registered a 47 per cent increase. Japan is now a net importer of textiles—contrary to the popular image of the country.

If you ask Government officials how these imports are *absorbed without quota regulation, they touch wood and hope* it can last. But they and the *businessmen involved are well* aware that Korea, to take the largest and most important case, has a *big* trade deficit with Japan and spends every penny it can on the sophisticated Japanese equipment it needs for future development.

If Japan were to clamp down on Korean textile sales in Japan there would be an outcry in Seoul for retaliatory action and the upshot of this policy would be an overall reduction in regional trade harming to all parties concerned. Besides, Foreign Ministry officials in Toyko believe that a *capitulation* to regional protectionism would make them more vulnerable to European and American restrictions. At the moment they can claim clean hands when it comes to controlling manufactures imports, so that the EEC and the U.S. cannot say: "You do it too."

Another factor is of course that some of the plant in the NICs is Japanese-owned, so that any control in overseas markets, whether in Japan or in the EEC or the U.S., would ultimately have an impact on Japan itself.

In the long run it is tempting to think that Japanese industry *might map out its own cartel-like arrangements with the Koreans and Taiwanese so that* damaging competition, both in *the Japanese market and in third markets like the U.S., can* be avoided. But there is no sign *yet of this emerging* and it is hard to see how Korea or Taiwan would ever agree to it. So

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'Yen zone' still a long way off

THE YEN

SABURO MATSUKAWA

ALTHOUGH JAPAN is now the dominant economic power in East Asia, formation of a yen zone is considered a remote possibility because many of the region's currencies remain effectively tied to the dollar. Despite an increase in the yen's international use and holdings, the Japanese currency also continues to be a satellite orbiting around the U.S. currency, rather than a planet maintaining interplay with another.

The steep appreciation of the yen during the 1977-78 period, when its value rose from around Y292.00 to the dollar at the beginning of 1977 to around Y176.00 late in October 1978, showed the remarkable resilience of Japan's economic structure towards exchange rate fluctuations. At some stage there was an outcry from Japanese industrialists and businessmen that the Japanese economy would be ruined if the floating yen was allowed to appreciate further. They misjudged or underestimated the fundamental strengthening of the Japanese economy resulting from structural changes which took place in the 1960s and which helped Japan to overcome the oil crisis of 1973. But the Japanese Government avoided taking any measures that would effectively stop appreciation of the yen, except for lukewarm attempts at curbing exports and encouraging imports, and occasional massive dollar - buying intervention, which did not succeed in halting the yen's advance until the U.S. joined the effort with the Carter package of November 1, 1978.

Strength

Japan has become the second largest economic power in the world after the United States in terms of gross national product. Such a strength of the Japanese economy may suggest that the yen is qualified to become an international currency, accepted widely in the world, to supplement the dollar. There have been discussions on the possibility of Japan forming a "yen zone" in South East Asia, just as the European Monetary System has been formed with the German Mark as a core.

Mr. Masao Fujioka, former Director-General of International Finance Bureau of the Japanese Finance Ministry, said in a recent speech that "formation of the yen bloc has frequently been referred to in association with internationalisation of the yen, and the concept now seems to be motivated by the recent EMS moves. The pre-war concept of the Greater Asian Co-prosperity Sphere is not diplomatically wise. Nor is it economically prudent to have the yen bloc, if it means a regional union barricaded by foreign exchange controls."

During the early 1970s, Dr. Robert Triffin, noted authority on international monetary affairs, proposed the establishment of an Asian Payments Union, but Japanese officials flatly rejected the idea. Following the recent formation of the EMS, Dr. Triffin was reported to have suggested to a senior Japanese official that Japan should reconsider his proposal.

Officials of the Japanese Ministry of International Trade and Industry are reported to be studying a plan to establish a "yen settlement bloc" as the nucleus of a "Pacific Rim Economic Zone." Such a block will become necessary in the 1980s to relieve the yen of its excessive dependence on the dollar, because uncertainties about the U.S. currency are sometimes liable to shake the Japanese currency violently. While the yen was appreciating steeply and Japan's external reserves snowballing in the 1977-78 period, some Japanese monetary experts suggested that the Japanese Government should impose an export duty on all exports and the yen revenue should be used to buy dollars from Japan's external reserves for contribution to the Asian Development Bank to be lent out to countries in the region. Although the loans were to have been mainly in dollars, the yen was also to play a role.

For many countries in East Asia, Japan is a major trading partner as well as a leading supplier of capital for their development of natural resources and industries. In addition to trade and investment, increasing ODA and other forms of finance supplied by Japan to these countries are resulting in enlarged use of the yen. Some countries not only hold the yen as part of their official reserves, but also partially link the value of their currencies to the yen in "basket formulas."

The fact remains, however, that most of Asian nations' trade is settled in U.S. dollars, to which their currencies are closely linked. The dollar is believed to be the main content of their external reserves and their "basket formulas," although their yen content is said to have increased in recent years. Japan's own foreign trade is also chiefly conducted in U.S. dollars. Only between 20 and 30 per cent of Japanese exports are settled in yen—the percentage fluctuates according to changes in the exchange market—while a mere few per cent of Japanese imports are paid for in yen. This condition, coupled with Japanese exchange controls, tends to aggravate the exchange rate fluctuations on the Tokyo foreign exhange market.

Japanese monetary officials thus point out the yen is in a different situation from the dollar or the D-Mark, although sometimes they are referred to as the three key currencies. Unlike the EEC, Japan does not have neighbouring countries at similar stages of economic development. The burden of maintaining a yen bloc would be intolerable for Japan. Instead, Japan has found its national interest in global associations, trading with advanced industrial countries in Europe and North America and importing petroleum and other resources both from Central and South America, OPEC and other developing countries, rather than forming closer intra-regional links. In contrast with the EEC, where the figure is around 50 per cent, Japan's intra-regional trade, inclusive of Australia and New Zealand, accounts for less than 30 per cent of the total.

The official way of thinking is that Japan should follow the trend of international markets and expand the use of the yen as external demand for the Japanese currency increases. Former Finance Minister Tatsuo Murayama made a statement in the National Diet (Parliament) in 1978 that the Japanese Government does not believe necessary conditions exist to form a "yen bloc" in South East Asia. Japanese monetary officials believe that the yen is still essentially a local currency and held overseas as something like portfolio investments in securities or investments in some world market commodities. The Tokyo capital market has expanded rapidly in recent years as a place to raise yen-denominated bonds or syndicated loans. But it will be some time before the Tokyo money market develops into the centre of trading by Asian nations in the yen. Such a development will presuppose liberalisation of the domestic Japanese money market, which is currently controlled by a rigid interest rate structure. Until then the yen will remain closely linked with the U.S. dollar. Attempts will also be made at forming a range of fluctuations in the yen-dollar exchange rate to prevent violent fluctuations, but such a range will necessarily be changed often, in which case it will become almost the same system as the present floating rate mechanism featuring central bank interventions to smooth out erratic fluctuations.

Increase

While he was Director-General of International Finance, Mr. Fujioka tried to increase the use of yen-denominated export and import bills and create a yen market in Tokyo like that of banker's acceptance market in New York with the help of the Bank of Japan. Technical changes were made to open the way for such a development, but little progress has so far been made, partly because both foreign traders and Japanese banks prefer to maintain their use of the long-established dollar finance, which is much freer than the controlled yen finance, for Japan's foreign trade.

Yet it seems to be a natural course in the long run for Japan to use its increasing economic power to expand interchange with its neighbouring countries, particularly with the newly industrialised countries such as Hong Kong, Singapore and South Korea, as well as with Australia and New Zealand further increasing the international use of the yen and leading to some type of yen zone.

Open door

CONTINUED FROM PREVIOUS PAGE

long as they are on the industrial ascendant they have no incentive to collaborate with Japan. The same goes for Hong Kong and Singapore, also possible members of such a club, itself evocative on a non-military and non-primary materials basis of the Greater East Asia Co-Prosperity Sphere of 40 years ago.

One must also recognise the cultural and racial antagonisms which darken Japan's relations with Korea and with any Chinese community. Sheer pride is likely to be the rock on which industrial integration schemes will founder.

At the same time some steam seems to be running out of the Korean dynamo, and many Japanese predict it will fall victim to inflation. This would reduce the pressure to protect Japanese industry from Korean products, while also making slightly more attractive those blueprints for a free trade area betwen the two countries which a few enthusiasts have long had on their shelves.

Meanwhile a handful of particular quantitative restrictions on textile specialties make the point that there may be an iron fist inside the velvet glove. Silk products are on quota from Korea (and also China) because the silk growers and processors constitute a persuasive rural lobby in a country whose conservative government relies on rural votes. Silk is an important source of livelihood for the constituencies of at least two recent Prime Ministers. There is even a very small cotton item which is restricted for similar special reasons.

This kind of ambiguous role makes Japan an unlikely candidate for the regular U.S.-EEC-Japan discussions on how to cope with textile imports. In GATT Japan is regarded as having a foot in both camps, denouncing protectionism as an exporter but reserving its rights as an importer. Recently it was obliged to choose its ground more definitively because of a clarification of the criterion for membership of the Textiles Surveillance Body which oversees the MFA, and Japan is now billed as an importer.

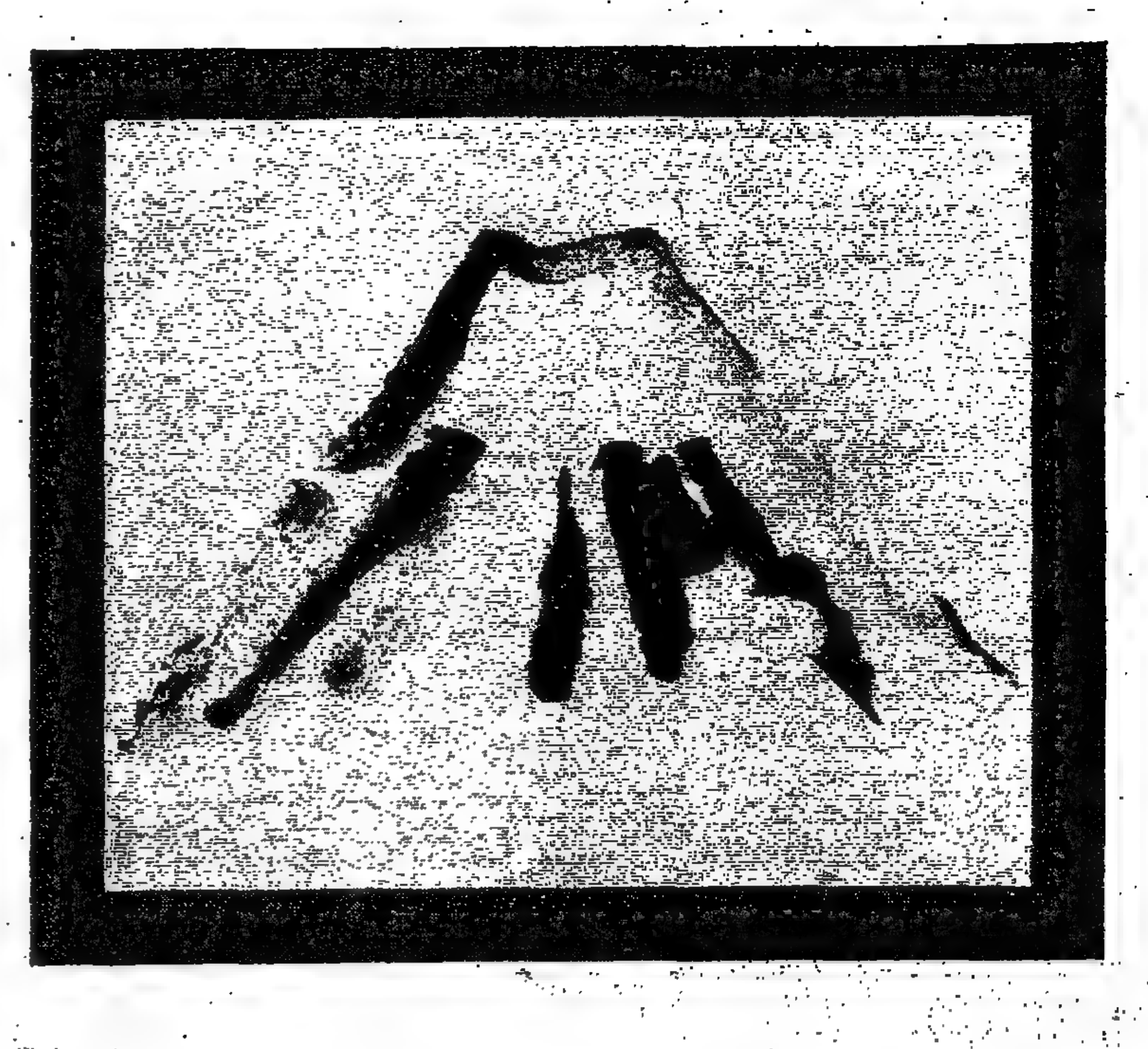
Yet the Korean, Hong Kong and Singaporean delegates at the bitterly contested negotiation to extend the MFA two years ago are the first to acknowledge the consideration and sympathy shown to their position by the Japanese delegation, in sharp contrast to the crude indifference of many of the American and European delegates. A similar remark could be made of the Multilateral Trade Negotiations under the Tokyo Round. Japan had to fight its way into GATT the hard way and sympathises with the efforts of the NICs to follow its lead 15 years later—including membership of the OECD itself, for which Japan is ready to be a sponsor.

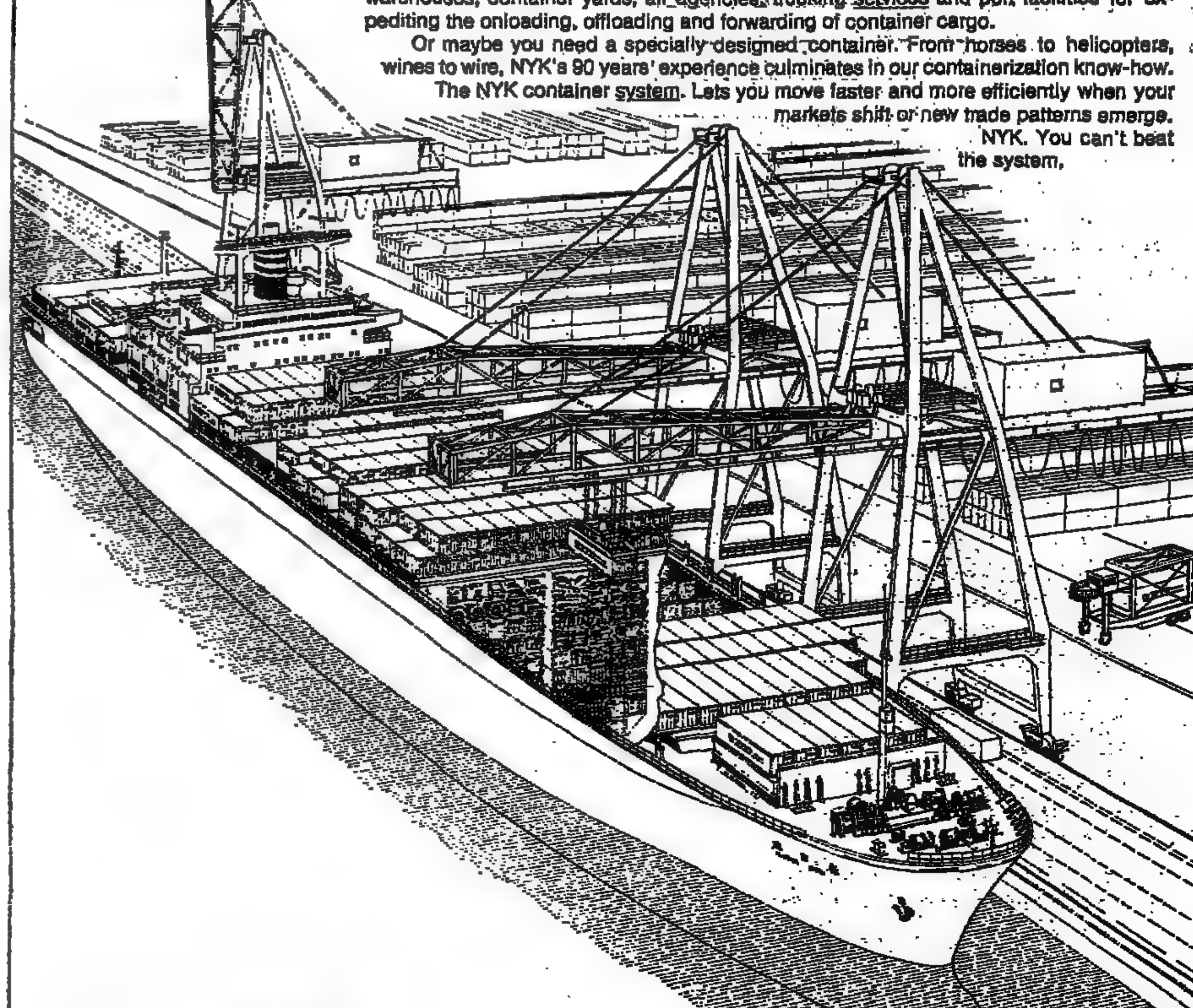
Defensive

Japanese diplomats regard the OECD Secretariat's thinking on NICs as too defensive and restrictionist, perhaps absorbing some of the climate of its host country, France. The Japanese view is that "we can sell more to NICs if we buy more from them," and the Japanese solution would be to try to balance trade at the higher rather than the lower level. The accompanying table illustrates the thesis.

When you are making $6½bn a year on your trade with four such neighbours you are not likely to cramp their exports to your own market. Nor has the relative importance of these transactions changed significantly: in Japan's global trade they represent only about 7 per cent, against 6 per cent in 1972. But Korea's deficit with Japan grew to $3bn last year and may hit $4bn this year.

Japanese industry will go on rationalising and restructuring, as the shipyards, aluminium smelters and steelmakers have shown. But the NICs manufacturers will for their part improve their skills in packaging and selling to the Japanese market, being better placed to do so than European or American exporters. In the long run some protectionism may be necessary. But Japan deserves credit for staving it off for so long and in having a more serious and realistic industrial restructuring policy than many European nations.





Shadow of the big neighbour

CHINA

GREGORY CLARK

AS A Russian intellectual put it to me almost 20 years ago: "By itself, we are not afraid of China. It will be at least 50 years before it can industrialise. But if it links up with Japan it will be a threat within ten years. For us it is a nightmare."

Nightmares aside (and it can be argued that if they do exist they have been largely self-induced) how much closer are we today to seeing the much debated and sometimes feared Sino-Japanese economic axis? And what does it mean for the industrialising nations of Asia?

The extent and direction of Japan-China ties is puzzling, even for those who watch the situation at close quarters. There is no doubt that Westerners tend to exaggerate the cultural link—shared religions, philosophies, ideographs and to some extent language.

At heart the Japanese and Chinese are two very different peoples—the former group-centred, emotional and non-intellectual, while the latter share the "dryer" and more principled approach of Western peoples.

Certainly Western, and later Russian, fears of an inevitable Japan-China tie-up during the 1950s and 1960s were never within range of reality. The conservative, anti-Communist rulers of Japan then were more than happy for the U.S. to take the initiative in keeping the Chinese excluded from Western markets. That, and heavy U.S. military spending in Asia, were major props for the Japanese economy. Few people realise how strongly Japan campaigned through to the bitter end in 1971 to keep Peking out of the United Nations, even when it was clear the tide had turned firmly in China's favour.

Today the political climate has changed enormously. Even the conservatives in Japan want closer ties, as a foil to the Soviet "enemy." Vietnam and the Gang of Four have not shaken many on the Left from their long admiration of things Chinese.

But this is still a long way from providing the basis for a firmly co-operative relationship. And the more one looks beneath the glossy surface of endless delegations and multi-million contracts the more one is struck by the gap that remains. The Chinese, for example, have taken a particularly tough stand over the execution of some contracts with Japan. In the early days one came across frequent cases of companies virtually held to ransom while the Chinese insisted that the cost of some delay or mishandling was carried by the Japanese side.

The Chinese had sensed the Japanese susceptibility to emotional pressure and were exploiting it. Back in the bad Gang of Four days one well-known heavy electrical maker found two of its staff virtually imprisoned in Peking until it replaced, free of charge, generators wrecked by untrained Chinese technicians. The Chinese freeze on contracts earlier this year hit Japan much harder than other countries. And to an outside eye the delay in coal and oil deals between China and energy-hungry Japan seems most curious.

The Japanese for their part have been slow to take a genuine interest in China. Culture may not equal economics, but one is still struck by the paucity in Japanese coverage of the Chinese scene. True to their strongly hierarchical view of the world, the Japanese still take far more interest in the advanced West—the U.S. and Western Europe mainly—than they do in nearby Asia, and that includes China. There is nothing to reciprocate the remarkable willingness of the Chinese to admit that they have much to learn from Japan.

On the business front the Japanese admit they have been far behind the West Europeans in organising the close government / private co-operation needed to tie official funds to plant exports. China still only takes a mere 2 per cent of Japan's total trade.

But the main problems lie in the future. What happens when China does begin to industrialise and Japan is forced to choose in favour of its Korean, Taiwan and South-East Asian interests? Or can the two be married? The first point is that the choice could be some way ahead. The extent of China's economic backwardness and the damage caused by almost 20 years of ideological fanaticism (it did not begin with the Gang of Four) is little realised, even if the Russians did have some glimmer of it back in the 1960s.

A big technological gap combined with a native exclusiveness and political timidity to make even basic progress painful under the most unlightened regime. As a middle-level official put it to me back in 1973: "We know we are behind Japan. And there are genuine reformers close to Chou En-lai (then Premier). But when they put out their directives they have to be careful in choice of words so as not to leave themselves open to future attack. When it goes down to the next level the words are further diluted. By the time it gets to bottom it is meaningless."

Reports suggest the problem still exists. The sudden revision of the ambitious ten-point modernisation programme aimed at making China an industrial power by the end of the century should not have come as a surprise to anyone aware of the grass roots problems still there.

That said, China's potential to emerge as a major trader and competitor has to be admitted. In particular its textile and footwear industries are well founded and have survived well the political instabilities of the past. They enjoy the legacy of skills built up in pre-liberation days, particularly in Shanghai. They also seem to have had some immunity from political meddling—unlike the steel, chemical and engineering industries. The Chinese idealogues seem to have told themselves they can do without steel but not without shirts.

An export drive based on these industries and on China's huge labour force would leave much of industrialising Asia in considerable disarray. Hong Kong, Taiwan and Korea, while they have been upgrading their textile industries greatly, are still heavily dependent on their exports. Japan too could be vulnerable since it has invested heavily in offshore production of textiles throughout Asia.

Backward linkage to chemical fibre and petrochemical exports would cause even greater disruption. But the threat from China in the highly competitive electrical goods sector seems still distant.

Even if it can achieve the needed quality and cost control, China has to start from scratch in developing markets and this is an area where it sadly lacks expertise. Against this, however, is the very real prospect of Japanese joint-venture assembly operations in China.

To date such operations have been concentrated in Taiwan and Korea. But the generous terms now offered by Peking, not to mention the attraction of its labour force, seems certain to lure Japanese manufacturers.

Japanese industry sources say the Chinese will almost certainly want an arrangement where part of the output is sold in China and part handed over to the Japanese partner for sale abroad to boost China's foreign exchange earnings. The Japanese would be happy with this, but the Taiwanese and Koreans almost certainly would not.

Japan-China co-operation in electronics would multiply enormously the problems the other industrialising nations in Asia face. Taiwan and Korea needed a wage differential of almost five to one with Japan before they could develop a comparative advantage in electrical goods manufacture.

Latecomers need a similar differential, but now it is not with Japan but with Taiwan and Korea. Throw in a China determined to compete on a joint venture basis and the Philippines, Thailand and others struggling to catch up in the industrial growth stakes face a hopeless problem.

The obvious answer is to try to turn China into a partner rather than a competitor. Here the Philippines has taken some important steps which have met with a good response in Peking. There is no reason why the Asian NICs should not do the same. But Seoul has its North Korea problem, Singapore has its domestic political problem, and Taiwan has rejected all Peking overtures.

Indeed, for those brought up in the ideological sterotype of the sixties when Peking was supposed to be the intransigent fanatic, the virulence of Taipei's current anti-Peking campaign is inexplicable.

Only Hong Kong seems able to come to terms with the China problem successfully, with its plans for joint ventures near the border in Kwantung Province. Perhaps that could provide a model for the others to follow, when they overcome the political hang-ups.

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Intensive spending

INFRASTRUCTURE

RICHARD HANSON

JAPAN'S ECONOMIC Planning Agency (EPA), in drawing up its forecast for the economy over the next six years is projecting that 11 per cent of the Gross National Product (GNP) will be spent annually by the Government and its agencies on improving the environment, roads, housing, railways, water, sanitation and sewerage, social welfare, etc. The amount of money to be allocated for these public fixed investment projects from 1979-85 is a staggering Y240,000bn, or more than twice the total projected for the period 1975-80. It represents more intensive spending on the national infrastructure than in any other advanced industrial nation in the world (the UK average is about 8 per cent of GNP and of the U.S. around 5 per cent).

The figures are impressive. But they must be seen in the perspective that while possessing the most sophisticated industrial infrastructure in the world, only about 26 per cent of the people in Japan are plugged into public sewerage compared with 96 per cent in the UK. There is only 3.5 square metres of public parkland per person in Japan against 30.4 square metres for every Londoner. Most Japanese agree with the much-publicised internal EEC report which described Japanese housing as little better than what Europeans would consider as rabbit hutches.

Japan is now seeking to catch up in the area of infrastructure. The hard-headed planners of Japan's economic miracle of the 1950s and 1960s decided the country could not afford the luxury of constructing sound public amenities while heavy industry was being nursed along. Although GNP was still expanding at a rate of over 10 per cent per annum the heavy concentration was on private capital spending for plant and equipment. In 1955, when Japan was well past the initial period of recovery after World War II, only 5.3 per cent GNP was aimed at infrastructure, with the amount only gradually rising toward the 10 per cent mark by the mid-1970s.

Gloomy

As late as 1973 the EPA's White Paper on National Life read like a gloomy indictment of the excesses of economic expansion. The then EPA director-general, Mr. Zentaró Kosaka, wrote that year: "The level of well-being of a nation may be measured not only by the quantity of income and consumption, but also by the quality of life in various areas such as education, employment, housing, natural environment, etc. What is needed now is that . . . all people . . . are able to lead stable and full lives." He described a land where pollution was getting worse, elderly citizens received inadequate care and almost everyone lived in sub-standard housing.

However, 1973, did mark a watershed of sorts for Japan. The failure to develop the infrastructure was by that time recognised as one of the great mistakes of the development strategies of the two previous decades. After the oil crisis Japan has been faced with the need to restructure industries like textiles and shipbuilding (which is operating only 39 per cent of the capacity it had in 1972-73) and steel (where more than 30 per cent of capacity lies idle).

The Ministry of International Trade and Industry's latest "long-range vision" for Japan's industrial structure summarises the basic directions Japanese society should take to achieve a high quality of life and preserve "harmonious relations" with other countries "which is also a prerequisite for achieving a decent and satisfying national life."

Among the plans being formulated is one that calls for the designation of 200-300 communities for development around the nation to spread the population and centres of industry. Harking back to the early 1970s, this sort of scheme was first given national attention when former Prime Minister Kakuei Tanaka proposed in a book the "Remodelling of the Japanese Archipelago." At that time, however, the shift of population was still into the main cities like Tokyo. In future the Government plans to double the amount of expressways throughout the country and extend the high-speed rail systems. This should provide scope for some genuine redistribution of population and industry.

The newly industrialised countries in Asia, particularly South Korea and Taiwan, were faced in the early 1950s with the enormous task of rebuilding from nearly complete destruction (even more complete than that of Japan after World War II). Both South Korea and Taiwan were burdened by largely agricultural societies, poverty, illiteracy, and non-existent or badly damaged industries. South Korea was cut-off from the heavy industrial plant of the North. Taiwan, with the influx of about 2m people from mainland China after Mao's victory over the Nationalist government became the most densely populated area in Asia.

Both embarked on ambitious programmes to develop themselves into industrial nations (South Korea somewhat later than Taiwan) and into leading exporters. In this they have largely succeeded. Rapid economic growth, however, has not been paralleled by the development of the social infrastructure, ie, roads, sanitation, communications, etc.

The concentration of national resources in heavy industry, most pronounced in South Korea, has left a gap between the ability of people to consume and the quality of life than consumption should bring. These countries are now trying to narrow the gap, with remarkably high percentages of their GNP devoted to infrastructure.

Since the 1960s Korean infrastructure development has contributed an average of 18.5 per cent to GNP growth.

South Korea in its projections into the future has recognised the importance of further developing the social fabric of the nation. In recent months it has been forced to cut back or scale down many of its huge heavy machinery, chemical and industrial projects in favour of more balanced industrial growth, and it appears a trend towards greater infrastructure investment will emerge in the 1980s.

Government expenditures in 1978 gave greatest weight to national defence and economic development—32.7 per cent and 25.5 per cent, respectively—while social development spending was about 19.7 per cent of the total. By 1981 the shift will be towards greater social spending. National defence spending will rise to about 34 per cent of the total, but economic development will be eclipsed by social spending, the latter taking 22.6 per cent against 21.2 per cent for economic development.

A long-range forecast for 1991 places social development spending at 33.8 per cent of the total, with defence dropping to 20.6 per cent and economic development to 18.6 per cent.

Under Korea's fourth five-year development plan (1977-1981) enormous strides will have to be made. The proportion of the population receiving piped water will rise from 40 per cent to 80 per cent: $830.5m will be spent on railways and another $2.533bn on roads. Over $5bn will be spent on adding 1.3m dwellings.

Taiwan has launched six consecutive four-year development plans since 1953, converting itself from an economy dependent as to 35.7 per cent on agriculture and 17.9 per cent on industry in 1952 to 12 per cent agriculture and 40.3 per cent industry in 1978. In 1952 agricultural produce and processed products made up all but 4.8 per cent of the country's exports. By 1978 industrial products accounted for 89.1 per cent of exports.

Development of the infrastructure has lagged, however. Only from the early and mid-1970s onwards did the Government launch serious large-scale projects to upgrade the road, housing and other social sectors of the infrastructure. It was also during those years that Taiwan committed itself to developing such heavy industries as petrochemicals, shipbuilding and steel. It is further moving into precision machinery and high-grade electronics after a long period of encouraging light manufacturing export-orientated industries.

Rush to expand in the region

RETAILING

JIM RUDI

THE 1970s have witnessed a scramble by Japanese retailers to get into the South-East Asian market. Back in the 1960s there was only one entrant into the market, Daimaru, with department stores in Hong Kong and Thailand. Now there are over 10 companies planning or already with some representation in this market; approximately half have taken their initial step in the past three or four years.

The Japanese retailers involved include virtually all of the top department store and superstore chain companies. The department stores include Daimaru, Matsuzakaya, Isetan, Mitsukoshi and Tokyu; the superstore chains Seiyu, Daiei, Nichii, Yaohan, Ito-Yokado and Tokyu Store.

The objectives and activities of these two categories of retailer differ. The department stores have been opening stores in such cities as Hong Kong, Bangkok and Singapore, as well as maintaining purchasing offices in these and other cities. The superstores, with the exception of Yaohan, have confined themselves to procurement operations.

There are a number of reasons for their growing interest. As purveyors of food products, less fashionable apparel and other products, their motivations are readily understandable. But the rationale behind the opening of department stores is more complex.

The main historical reason has been the growth of Japanese tourism in the region and the obvious opportunity for Japanese department stores to attract their home town customers when in a strange land. Retailing is one industry which, because of the intimate knowledge of the local market required, has spawned few multinational groups. The Japanese department stores are no exception.

Limited

In the major centres of South East Asia the ability of their relatively limited scale operations to survive is because they have catered primarily for Japanese tourists. Understanding the preferences of the Japanese consumer, they have been successful at arranging an assortment of local merchandise to take home as souvenirs.

This historical reason, however, is clearly not one which will provide a sound base for future expansion in the region. The recent rush of announcements has been sparked by the increased purchasing power of of a stronger yen, the improving standards of living in many of the industrialising Asian countries, and the higher quality of goods which local manufacturers can supply on a stable basis.

The most basic factor has been the economic growth in the region and the higher standards of living which have accompanied this growth. In this regard Hong Kong and Singapore have been the most attractive areas for investment. Of the department stores currently in operation, three are in Hong Kong, four in Singapore and one in Bangkok.

The gift department in a Mitsukoshi store in Tokyo

Those in the planning stages will also be in these cities, with Singapore being targeted by four department stores. The *economic prosperity and population* growth of this city-State have been the prime features drawing the Japanese.

The success of stores such as the Hong Kong Matsuzakaya can be attributed to retailing know-how which these companies have developed in Japan. With higher income levels and changing consumption patterns, the Japanese retailers have been positioned to provide *luxury fashion goods* in a boutique setting, something they have been quite adept at domestically. Just as in many Japanese cities, the development of leisure facilities has lagged behind economic growth. Department stores have filled the gap by providing in-store leisure facilities such as restaurants and rest areas.

The appreciation of the yen has been and should continue to be an impetus for Japanese retailers to expand both their retailing and product procurement operations throughout the industrialising nations of South-East Asia. In Japan the soaring cost of land and its lack of availability in the department stores' customary locations have resulted in a decline in new store investment over the past decade. This has forced them to look elsewhere for expansion opportunities.

The superstore chains, on the other hand, have found plenty of room to expand their current operations and diversify into new fields. This has made overseas investment less attractive or urgent, although a couple have undertaken small-scale operations.

Of greatest importance for the economies of the new industrial States of South-East Asian nations has been the presence of Japanese retailers as buyers. Increasing the volume of consumer goods imports from South-*East Asia has been facilitated* by several factors.

Cost has always been one. Asian goods have been consistently cheaper than domestic Japanese products, but the drawback in the past has been on the point of quality. Prices have become even more competitive because of the appreciation of the yen. With this greater purchasing power, more Japanese retailers are setting up buying offices, *increasing the frequency* of buying missions, or else becoming members of major buying organisations.

The solution of the quality question has been a matter of time and serious efforts on the part of Japanese retailers to help other Asian manufacturers conform with Japanese specifications. Although the fluctuations of the yen will affect the short-term profitability associated with certain types of imports, the tendency of Japanese retailers in recent years has been to neglect near-term gains in favour of establishing long-term supply sources.

To ensure stable supplies for *the future a growing number of* retailers have been bypassing the traditional trading company channel to import directly themselves. One of the largest department stores revealed that approximately half of its total imports are direct, a figure coming to roughly $150m in 1978.

For the department stores South East Asia is attractive for its various food products and household goods. The basements of Japanese department stores do a tremendous turnover in food, partly because of the special import bargains which they offer. Of the household goods, a high percentage is in goods manufactured according to specifications supplied by the department stores. These items include furniture lines which carry the store's own label. Some department stores have even acquired equity holdings in the local manufacturing concerns to cement the relationship.

The superstores have positioned Asian imports in the volume zone of their merchandise mix where there is high turnover and stable demand. The typical mix of imports by the superstores is for food to account for approximately half, clothing a slightly smaller portion, and other goods only a small fraction. Asian imports are the most prominent in the clothing category, with volume items such as underwear, shirts and other goods with relatively low fashion content accounting for the bulk of these imports. More fashionable goods take too much lead time to develop, and therefore the risk is greater. For example, imports of pyjamas from the region reached approximately $38m in 1978.

Other types of retailers, even down to the voluntary chains and co-operatives, are expressing growing interest in imports.

Encouraging

Prospects for expanding relations between Japan's major retailing companies and South-East Asia are encouraging. A growing volume of consumer goods to the Japanese market could prove to be a vital element in the healthy economic growth of these nations. The Japanese retailers, who have built large-scale retail organisations in the span of less than two decades, can also be of assistance in building efficient retailing and distribution systems in these nations.

Although the presence of Japanese department stores and other retail outlets is limited at present, more companies appear to be giving serious consideration to the potential in the region. Several have announced plans for new stores in the next few years, but there is little probability of a big rush.

Some of the determinants of the pace at which they move into the region are beyond the control of the Japanese. Political stability is a prominent factor. Hong Kong and *Singapore have been attractive* for this reason, but many other countries in the region lack both the necessary degree of political stability and the income levels which Japanese retailers will want to see before they make a commitment. Waiting for the ideal conditions, however, could mean lost opportunities.

Challenge to Europe

WATCHES

ROD O'BRIEN

THE WATCH industry in Asia has successfully challenged the traditional centres of manufacturing in Europe, with Japan and the newly industrialised nations (NICs) producing a virtual flood of timepieces. Japan in particular has become Switzerland's main competitor in the more expensive watches, slowly eroding the Swiss share in Japan's home market.

After creating a domestic industry which was essentially a copy of the European model, the Japanese began moving aggressively on their own in the 1970s. In more recent years they have also learned the value of switching certain types of production to low-cost neighbouring countries.

Japan has a Y400bn (about $2bn) watch industry, a quarter of which is devoted to clocks and the remainder *to high*-quality and competitively priced wrist watches. Output is roughly 50m watches and clocks a year, second only to that of Switzerland, which pro*duces 70m units (half of them* traditional "spring - based" equipment). Next after Japan in the world watch-making league table comes the Soviet Union with 36m units followed closely by the U.S. with 32m. Hong Kong ranks fifth, with other Far Eastern manufacturers such as Taiwan and Korea following not far behind.

Japanese admiration for the *high-quality*, high-priced watches of Switzerland dates back at least as far as the start of the "Taisho Era" (the beginning of the reign of Emperor Taisho in 1912) and Japanese tourists still account for almost half the "souvenir buying" of watches by visitors to Switzerland. Respect for foreign workmanship has not, however, prevented the Japanese from trying to do as well or better at home. Indeed Japanese entrepreneurs seem intent on producing high-quality watches of ever-increasing volume so as to cut down the volume of top-priced Swiss imports.

The success of Japan's quality offensive is apparent both in the steady increase of Japanese top-quality sales around the world and in terms of the way the Japanese makers are moving into the high-priced luxury corner of their own home market that has traditionally been dominated by Switzerland.

Technology

Japan's gains are being made basically with a new generation of watches using mechanisms based on the new integrated circuit (IC) technology (as opposed to the traditional hand-wound diamond-studded models in which Switzerland remains supreme). But it is not only at the upper end of the market that IC technology is making itself felt. A parallel trend—and one which is showing up clearly in the pattern of imports into Japan—is the rise of the cheap but reliable IC-driven digital watch from "offshore" production ventures in South East Asia.

The leader among the South East Asian makers, Hong Kong, increased its share of Japan's watch import market from 5.9 per cent in 1975 to 9.3 per cent *in 1978 and* then to 15 per cent in 1978 (when its total sales were worth Y5.7bn). Taiwan sold Y3.8bn of watches in Japan last year (for an import market share of 10 per cent). Singapore and South Korea ranked fourth and fifth with sales of Y3.2bn and Y2.3bn and market shares of eight and six per cent respectively. Such figures still look small besides Switzerland's Y19bn sales in 1978. But Switzerland's market share last year was down to 50 per cent compared with 68.2 per cent in 1975.

The growth of the low-priced watch industry in the Asian NICs is not something that has happened independently of Japan—very much the reverse, according to Mr. Y. Shirasawa, managing director of the Japan Clock and Watch Association. It represents rather a co-ordinated and carefully planned development in which Japan's top watch manufacturers (Seiko, Citizen, Rhythm, Richo and Copal) have played the role of initiators and prime movers.

Mr. Shirasawa estimates the wholesale value of sales by the Asian joint ventures of these five "majors" at Y5bn to Y7bn per year and estimates that *sales are increasing at an annual rate of between 30 and 40 per* cent. He is confident that the pace of increase will be maintained, at least for the next few years, because of the impetus generated by the changeover from *spring-driven* to quartz-driven production.

The new quartz-electronic systems, with digital faces but no hands, are the speciality of producers in neighbouring Asian countries, whereas Japan's domestic industry concentrates on (higher priced) quartz-driven watches that run on wheels and gears as well and have hands. The important point, however, is not the type of quartz (whether digital or otherwise) but the ratio of quartz production in Japan and the region as compared with the traditional spring-driven mechanisms. Japan's production is now 50 per cent quartz-driven compared with 8 per cent in the case of Switzerland.

The Japanese acknowledge that Switzerland will ultimately make the transition to quartz manufacture and in so doing bridge the main gap that now exists between the European and Asian watch industries, but they still believe that the horizontal division of labour that has been worked out in Asia will give them an advantage. "We will have the edge over our competitors in wage costs at *least until the end of the 1980s*" says Mr. Shirasawa, and he cites some of the costs of components manufacture in neighbouring countries to prove his point.

Steel watch cases made in Taiwan (and exported either to Japan or other assembly points in the region) cost 40 per cent to 50 per cent less than similar cases made in Japan. Artificial jewels produced in Kuala Lumpur in Malaysia enjoy a similar advantage, and so the list goes on. Mr. Shirasawa estimates the total value of the multi-directional trade between the overseas parts manufacturing ventures in which Japanese companies are involved as in the region of Y20bn per year.

Japan's watch industry has invested overseas for "political" as well as economic reasons—the main one being a desire to *avoid criticism* that the industry is only concerned with boosting its direct exports from Japan. The transfer of technology and production to offshore manufacturing centres has aided the economies of the countries concerned and substantially contributed to the improvement of their trade balances with Japan. It also gives the Japanese industry a regional multinational production base, far stronger than anything that could have been built up solely in Japan.

Overseas production centres multiply

ELECTRONICS

CHARLES SMITH

NOWADAYS it no longer makes sense to think of the Japanese electronics industry as something operating essentially within the frontiers of Japan. The country's largest and fourth largest overseas investors (after the general trading companies) are Matsushita Electric and Sanyo, two companies which coincidentally rank among the largest of the consumer electronics manufacturers. Their investments, and those of other top manufacturers such as Toshiba and Hitachi (both also heavy electrical manufacturers) include local assembly operations in developing countries, assembly and/or manufacturing ventures in advanced countries (such as the U.S. and Britain) and last but by no means least, a wide range of different types of venture in intermediate industrial countries such as Korea, Taiwan, Hong Kong and Singapore.

The third category of investment differs from the first two in that the purpose of Japanese electronics ventures set up in the Asian NICs (newly industrialised countries) has normally been to export (either to advanced Western countries or back to Japan) rather than supply the domestic markets of the countries concerned. It also differs from the other two types in that investments by the big Japanese electronics companies in neighbouring Asian countries have come to be viewed as something like a transfer of production capacity out of Japan.

Incentives

The first Japanese electronics investments in what are now identified as the Asian NICs were made in the early 1960s and were mainly designed to take advantage of low-cost labour and tax incentives offered by such countries as Taiwan and Korea (usually in conjunction with bonded export zones, into which components for assembly could be imported free of duty, provided the finished products were afterwards exported).

Production began with radios and other simple electronic (or electrical) products but by 1970 Japanese electronics makers began to shift black and white TV production out of Japan. They did this with the object partly of reducing costs and partly of bypassing the import barriers that were by that time being erected in advanced countries against Japan's own TV exports. In the mid-1970s colour TV assembly also began to move to the NICs, with results that became strikingly apparent after the U.S. obliged Japan to accept an orderly marketing agreement that limited its direct exports of colour TV sets to America.

The loophole which allowed Japanese electronics companies (and local non-Japanese makers) to export colour TV sets freely to the U.S. from Taiwan and Korea — after restraints had been imposed on exports from Japan itself—disappeared in 1978, when first Taiwan and then Korea were obliged to negotiate their own orderly marketing agreements with the U.S.

This restriction of the Korean and Taiwanese export channels left Singapore as the only offshore production base, from mid-1979 onwards, from which Japanese companies were free (theoretically anyway) to increase their exports to the U.S. But most Japanese electronics manufacturers expect Singapore to be drawn into the orderly marketing system within six months to a year. In that event the Japanese manufacturers will be left with the choice of either making a fresh move into some new offshore production centre (Malaysia?) or accepting that from now on their colour TV sets for sale in America may have to be supplied chiefly by manufacturing subsidiaries inside the U.S.

Restraints on colour TV exports to the U.S. from Taiwan and Korea (particularly the latter since the Japanese presence there is much larger than in Korea) have caused problems for existing Japanese ventures in the NICs but have not by any means made nonsense of the concept of offshore manufacturing bases. One reason why it still makes sense to build up production capacity in the NICs is that U.S. manufacturers are doing precisely the same thing (in fields such as audio equipment, where almost all the products now sold under American manufacturers labels are imported from offshore manufacturing bases).

A second reason why Japanese electronics companies are still expanding their presence in the NICs is that there is no restraint on imports into the U.S. of components for finished TV sets. Major U.S. electronics companies have chosen Singapore as a site for building TV chassis which are then shipped to assembly plants in the U.S. and Japanese companies are beginning to do likewise.

An instance of the new components-orientated approach to investment in the Asian NICs is provided by Toshiba, whose Singapore company has just started building TV chassis for shipment to the Toshiba TV assembly plant in Tennessee.

The final reason why Japanese investment in offshore Asian electronics production still has a big future is that Japan itself is a market for finished electronic products. Some of the goods shipped back to Japan from offshore plants of Japanese manufacturers during the past few months have been diverted from original destinations in the West. (A case in point involves the shipment to Japan of some 2,500 to 3,000 colour TV sets per month from Hitachi's Taiwan plant since last March.) Japanese electronics companies have also, however, over a long period, deliberately shifted procurement of some relatively simple products from domestic production in Japan to offshore plants (particularly in Taiwan).

Toshiba, for example, imports refrigerators and other products under an OEM (original export manufacture) agreement with Tatung Company, the major Taiwan electronics group in which Toshiba owns a 6 per cent stake. The Tatung products are produced to Toshiba designs and quality standards and sold in Japan through Toshiba's distribution network. The profit on such transactions is substantially larger than if Toshiba produced the same items in Japan since the Tatung labour costs are much lower than those at Toshiba's Japanese plants.

After a decade or so of supplying its products to Toshiba for marketing under the Japanese company's label Tatung took the plunge late last year and established its own Tokyo showroom. The company claims that it will from now on carve out a substantial share for itself in the Japanese consumer electronics market under its own name, but the major Japanese electronic makers doubt whether this will be possible. The problem, they point out, is not the quality of Tatung products (which are now fully up to Japanese standards) but the fact that Japanese consumers are faithful to Japanese brand names.

Another point made by companies like Toshiba is the control over the wholesale and retail distribution of consumer electronics products in Japan that is maintained by the large manufacturers. Because of this, the Japanese companies believe that decisions on how far to shift production of consumer durables out of Japan rest largely with them. They also point out that Japan's lead in technology makes it highly unlikely that indigenous manufacturers elsewhere in the region could offer a genuine challenge to the Japanese industry.

Tatung Company claims that 95 per cent of the components of its colour TV sets are made in Taiwan, but the majority of the component makers concerned (according to Japanese sources) are partially or wholly controlled by Japan. Because of this largely dependent relationship Japan continues to run a strongly favourable balance on its electronics trade with the Asian NICs — for example, South Korea's electronics imports from Japan (in 1977) were worth $380m against exports of $215m.

In deciding which portions of their operation to switch out of Japan at what speed the Japanese manufacturers have to consider both the economics of the transfer (which boil down to balancing the labour cost advantages of the NICs against superior automation in Japan) and their obligations to their Japanese labour force. Different companies have followed different courses of action in this situation: for example Matsushita shifted production of refrigerator compressors to Singapore some years ago while Sanyo chose to step up its production of the same item in Japan.

The industry as a whole has also experienced the phenomenon of what might be called the "double shift." An example is the case of black and white TV sets which left Japan in the early 1970s, then returned when the Japanese makers started developing miniature screen sizes for use in combination with tape recorders, and are leaving again now that the technology for the manufacture of miniature screens has come within the reach of the Asian NICs.

A question on which the Japanese electronics makers seem unanimous is the relative attractiveness of the four Asian NICs as production bases. Taiwan was favoured by most investors during the 1960s but has tended to be shunned during the 1970s for political reasons (since every major electronics company is either actively or potentially involved in business with China).

Korea has proved a fairly difficult partner because of Government restraints on the degree of involvement of foreign investors in joint venture companies, and more recently because of high inflation (which in the view of one major company rules out the possibility of any new Korean investments for the next two to three years). Hong Kong has been passed over by most investors because of the high cost of land and factory sites (except for small ventures like Hitachi's watch transistor factory).

Favoured

The result, by process of elimination, is that Singapore has come to be regarded as the favoured site for Japanese electronics investment in the region. Matsushita now operates seven Singapore companies (one of which is an engineering training centre) while Hitachi and Toshiba have both recently committed themselves to major new investments on the island. Singapore's good communications and favourable environment (including its government's acceptance of 100 per cent foreign-owned manufacturing ventures) make it the perfect location from most points of view—except that labour shortages are starting to become a problem.

If the labour shortage problem gets any worse, as it could well do given the rate at which Japanese and American electronics companies have been crowding on to Singapore island in the past year or two, the Japanese electronics industry may have to find somewhere else for its next round to Asian investments.

Foundation for development

TEXTILES

RICHARD HANSON

THE TEXTILE industry has served as the foundation for economic development in most of the newly industrialised countries in Asia, just as it did for Japan as it began to emerge into the industrialised world from the 19th century onward. Traditionally, it is an industry which thrives where low-paid unskilled labour is abundant. Basic textile products can be exported readily (where protectionism does not curtail imports) and provides a quick source of foreign exchange. It is also, however, an industry which can quickly become uncompetitive as other nations with even lower wages and less economic development try to follow in the footsteps of the NICs.

Japan still has a large textile industry. Textiles and related industries employ about 2.5m people, although the number is down from the periods of peak employment. Textile exports have slipped in overall importance for Japan from 18.5 per cent of the total in 1965 to only 4.9 per cent, but the value of those exports has continued to rise from only $749bn in 1965 to about $4.8bn in 1978.

The Japanese industry has been through a difficult period of reorganisation and restructuring since the late 1960s when it began to meet protectionist pressures from the U.S. and into the 1970s when the industry was buffeted by the oil crisis and subsequent long economic recession.

During the latest accounting period, the seven largest Japanese synthetic textile makers found that sales as a whole had dropped 3.6 per cent after a 7.1 per cent decline the preceding year, even though the companies had reversed operating losses to a profit as prices improved and rationalisation efforts took effect.

The decline in Japan's competitive position vis-a-vis the newly industrialised countries of Asia can be illustrated by a look at its share of the U.S. import market. In 1970, Japan accounted for 22.6 per cent of the total against 23.8 per cent for the NICs, by 1975 this share had fallen to 11.1 per cent while the NICs increased to 49.5 per cent. The Japanese have virtually abandoned certain segments of the lower quality textile market to the NICs (and increasingly so to the Chinese), and have moved further into producing high-quality goods based on superior technology, an advantage they hope to maintain for many years to come.

Trade with the NICs in textiles is rapidly turning in favour of the latter, particularly in the areas of clothing. Last year Japanese imports of cotton yarn increased by 340 per cent, cotton woven fabrics were up 196 per cent and woven fabrics made with artificial fibres gained 201.0 per cent. Clothing imports were up 142.2 per cent over 1977. The Textiled industry's trade surplus in 1977 was $966m, but this fell to only $36m with the same trend continuing into 1979.

Dropped

The total demand for all textiles and products in Japan rose from just over 1m tonnes in 1965 to a peak of nearly 2m tonnes in 1973, but by 1976 this had dropped back to about 1.5m tonnes. In 1965, Japan depended on imports for only 0.6 per cent of domestic demand and was exporting 31.6 per cent of domestic production. In 1976, 11 per cent of domestic demand was being met by imports, and by 1980 that is expected to rise to more than 17 per cent, with only 25 per cent of what Japan produces going for exports.

Meanwhile, Japan has become an important market for the NICs. Taiwan exports of textiles and textile products to Japan in 1977 totalled $154m, or 13.7 per cent of all Taiwanese exports to Japan. This nearly doubled to $282m in 1978, or nearly 20 per cent of the total.

Japan's exports of textiles and products to Taiwan rose from $154m in 1977 to $167m in 1978.

South Korea's exports to Japan totalled $1.035bn in 1978, up from $656m in 1977, while its imports of textiles from Japan rose by a smaller amount to $342m from $321m.

Hong Kong, unlike the other NICs has a large deficit in textile trade with Japan, last year exporting only $144m while importing from Japan $539m. Japan is Hong Kong's fourth largest market for overall exports and has always had a surplus in clothing trade. Japan, however, has been the largest supplier of textile materials accounting for more than a quarter of such imports.

China has become the second largest exporter of textiles to Japan, following South Korea. In 1978 it exported $307m compared with $184m in 1977. Japanese exports to China were nearly unchanged at $198m.

The Japanese textile industry has not been left behind by the growth of competitors around Asia. It had, in fact, contributed significantly to its development since the 1950s, with a large number of ventures throughout the region. The degree of Japanese penetration can be measured by the fact that about 30 per cent of all the textile synthetic fibre production in Asia (excluding Japanese domestic production, which is larger than all Asian production put together) is controlled by Japanese companies, ventures or their affiliates.

There are 73 Japanese joint ventures in South Korea, 51 in Taiwan, 35 in Thailand, 29 in Indonesia, 26 in Hong Kong, 18 in the Philippines, 17 in Malaysia and nine in Singapore. The largest of the Japanese textile companies, Toray Industries, is by no small coincidence the second largest overseas manufacturing investor from Japan, with about 50 ventures mostly in South East Asia.

Toray was among the pioneer of overseas ventures by Japan in the textile industry with a company in Hong Kong established in 1956. Its philosophy has been to establish ventures in markets where exports have been successful but which could be lost if local production was not initiated.

Toray exports synthetic fibres

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Industry returns to normal

PETROCHEMICALS

CHARLES SMITH

JAPAN'S PETROCHEMICALS industry grew with remarkable speed from the late 1950s (when ethylene production capacity was under 20,000 tons) to the early 1970s when the industry boasted nine giant petrochemical complexes with a total capacity of 5m tons. On the eve of the 1973 oil crisis Japan was the world's second largest petrochemical producer, after the U.S., and a major supplier of plastics and synthetic rubber products for the light industries of neighbouring Asian countries.

The oil crisis, however, threw the industry and its overseas markets into a confusion from which recovery is still not complete. In 1974 there was a series of freak shortages of petrochemical products which enabled the Japanese manufacturers to raise their exports to record levels (but also led to a series of industrial accidents caused by excessively high operating levels). What followed was a three-year slump during which product prices collapsed (although the price of naphtha, the industry's basic raw material recorded a series of sharp increases) and both exports and overall levels of output fell abruptly.

Last year was the first "normal" year for the petrochemical industry since before the oil crisis, with a more reasonable balance between raw material and product prices, a general recovery of demand in overseas markets, and the highest level of ethylene production in the industry's history.

Shocks

The return to normality in 1978, however, did not bring with it any general revival of pre-1973 attitudes. After the shocks and upheavals of the past few years it is now generally agreed that the industry needs consolidation and rationalisation considerably more urgently than any further increases in its overall production capacity. There also appears to be a consensus (between MITI and the top petrochemical manufacturing groups) that the next major investments made by the industry should be outside, rather than inside Japan.

The reason for this is that the availability of naphtha (the basic petrochemical feedstock) is likely to be too uncertain in the next five years or so to make the construction of big new ethylene manufacturing centres in Japan itself anything other than an extremely risky investment. This does not rule out replacement of existing capacity, some of which now dates from over 20 years ago and is regarded as decidedly uneconomic: but it does mean that overall production capacity in Japan is likely to remain in the region of the present figure of 5m tons of ethylene.

If MITI and the petrochemical industry leaders stick to their view that further investment in Japan would be unwise the prospect for the next few years is that Japan will have to withdraw gradually from its position as an exporter to neighbouring Asian countries, since the 15-30 per cent of output (varying according to individual products) that was formerly available for export will increasingly be needed to supply Japan's domestic market. MITI believes that exports will have fallen to "insignificant" levels by the mid-1980s, making petrochemicals into what it describes as a "domestic market-intensive industry" for the rest of the decade if not beyond.

It also takes the view that, because of its increasing inability to export, Japan should "welcome" the trend towards petrochemicals self-sufficiency (and even the appearance of export surpluses) in some neighbouring countries. The two countries referred to by MITI in this context are South Korea, which was almost wholly dependent on Japan for plastics and other synthetics until around the time of the 1973 oil crisis but which expects to attain virtual self sufficiency this year with a total ethylene capacity of 500,000 tons, and Taiwan (also with 500,000 tons ethylene capacity), which has already emerged as an exporter.

The attitude of the Japanese petrochemical industry to Korea and Taiwan is somewhat less positive than that of MITI, but still appears to stress co-operation rather than head-on competition. The Mitsui group is a 50 per cent shareholder in one of the downstream plants forming part of the second and larger of Korea's two petrochemical complexes and thus regards itself as having been in on the ground floor of Korean petrochemical development (unlike the Mitsubishi group which already planned to participate in the same venture but withdrew after the 1973 oil crisis).

The situation is different in Taiwan, which developed its industry without the benefit of Japanese investment (the Japanese stood aside for political reasons as they have done from much other recent industrial development in Taiwan) but which has nevertheless begun to build up a significant export market in Japan. Japan's petrochemical producers at first reacted to Taiwanese exports (of products for which temporary shortages had developed in Japan) by conducting their own "defensive" imports from the U.S. They have now adopted the tactic of convening a trilateral meeting between the petrochemical industries of Japan, Korea and Taiwan to discuss market prospects and future investment plans in the region with the overall aim of avoiding "market disruption."

The first trilateral meeting was held in Kyoto (western Japan) in May this year and is due to be followed by a session in Taipei next spring. At both meetings a key topic seems likely to be the plans of Taiwan and Korea for increasing their ethylene production capacities in the early to mid-1980s, when the Japanese industry, as already noted, will be marking time.

Reasonable

Japanese sources officially describe Korean plans for acquiring an eventual 1.5m tons of capacity as "reasonable," but the hope appears to be that progress in this direction will be gradual and that export surpluses will not be generated in the near future. Similar feelings probably exist about Taiwan's plans to acquire 900,000 tons of production capacity by 1982. Both sets of plans, of course, depend on the availability of naphtha supplies.

Looking beyond North East Asia, to South East Asia and the Middle East, the Japanese petrochemical producers (and MITI) face two important decisions on the launching of international joint ventures. In Singapore Japan is committed to taking a half share in a 300,000 ton petrochemical complex that will, it is hoped, supply the markets of member countries of the Association of South East Asian Nations (ASEAN). In Saudi Arabia a decision is pending on how and when the Mitsubishi group will help to construct a similar complex.

The rationale of both the Singapore and the Saudi projects is that, while their basic economics may be less favourable than if they were built in Japan, raw materials supplies should be guaranted (in Saudi Arabia the complex will use locally produced natural gas, in Singapore naphtha is expected to be available for at least the next ten years from a local refinery industry which is controlled by international oil majors.)

One of the major questions which will have to be settled before the Singapore project can move ahead is that of whether or not other South East Asian countries such as Indonesia and the Philippines can be persuaded to forego building their own competing petrochemical complexes using local raw materials.

If the Singapore project comes on stream in 1983, as its Japanese promoters now expect, it may be in time to fill the gap which will be left by Japan's withdrawal as an exporter to Far East markets. The Saudi Arabian project, following a year or two later, would be needed (in the view of MITI) to cope with a natural increase in demand that would have occurred in the interval. Japan's participation in both projects would enable it to continue playing a part in the development of petrochemicals in the mid-1980s despite the limitations on the industry's growth inside Japan itself.

Foundation

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to Asia in large quantities, but does not intend to use its local production for re-export to Japan itself. Its overseas production of fibres amounts to 510 tonnes per day (compared with 998 tonnes in Japan where 14 per cent of its production facilities have been mothballed).

The move overseas by the Japanese textile industry peaked in the late 1960s and early 1970s, when it was apparent that low labour costs would make competition at the lower end of the market impossible. Manufacturing worker salaries in Taiwan and South Korea are still about one-fifth of the Japanese wage scale. Since the early and mid 1970s, however, there has been no further direct expansion of the Japanese investment in textiles in Asia, and it is unlikely any new surges will be seen.

Toray's president, Mr. Tsuguhide Fujiyoshi, feels that the Japanese textile industry has done all that it can for the developing industries in the NICs. "We have taught them all we know," he said in an interview. Indeed, Japan has been the major source for technology in building up the Asian textile market; its ability to act as a filter for western technology in synthetic fibres reaching the NICs and its role as the major supplier of textile machinery to those countries has assured Japanese superiority.

The textile industries in the NICs, while competing among themselves and with Japan for shares in the major markets, primarily the U.S., will be facing new competition from other less developed Asian nations such as the Philippines (where Taiwan's Formosa Plastics Group would like to establish a complete upstream and downstream petrochemical and synthetic fibres project). The most worrying force for the textile industry, however, is China, which needs to export in order to raise foreign exchange to fund ambitious modernisation and development schemes.

Hong Kong, which is the world's largest exporter of clothing, is moving together with Japan towards more manufacturing ventures in China. Clearly a flood of cheap Chinese textiles could disrupt the world market, and U.S. and EEC officials are trying to hammer out quota agreements to limit such a potential flood. South Korea and Taiwan, which officially do not trade with China, see Chinese wages as a major threat. (A textile worker in Shanghai makes about Y7,000-8,000 a month, while his Pusan counterpart gets Y17,000.)

It is unlikely that China will choose to be a disruptive force. Toray's Mr. Fujiyoshi, who visited China last year, believes that China will be forced to shift from the production of cotton to foodstuffs in order to feed its people. It will also have to develop its own synthetic fibre industry (there are only three plants so far) to replace cotton. These tasks will keep China occupied for some time to come. (Toray says China is now as big a customer for its products as the U.S.)

It must be assumed that eventually the wage differences between the NICs and Japan will narrow sufficiently to cease to act as the decisive competitive factor. The Governments of Taiwan and South Korea have made huge investments in the petrochemical industries to reduce their dependence on textile raw materials (Japan and the U.S. being major suppliers). This strategy appears to be sound, but with the price of petroleum rising sharply the relative advantage of having an upstream capability is somewhat diminished.

Japan, in any case, dwarfs the other petrochemical industries of Asia in size and capability. Japan will also probably remain the technological leader in the textile industry. It is on the high-quality sophisticated products it is now producing that the Japanese industry will depend to compete in the future.

Main challenge from America

THE MOTOR INDUSTRY

JOHN FUJII

JAPAN'S MOTOR industry, after roaring through the 1970s, may have to slow down as it swings into the 1980s, according to a representative group of senior executives of the industry's top companies. The reason for slower growth in the next decade is not, however, seen as the emergence of a challenge from the "new" industrial countries of eastern Asia—despite energetic efforts of those like Korea to develop an export-orientated motor industry. What could be much more of a problem for the Japanese motor men is the series of new small fuel-economy cars being developed by the leading U.S. manufacturers.

Mr. Masatake Okuma, executive vice-president of Nissan Motor Company and the man in overall charge of Nissan's overseas activities, admits that the Korean motor industry — and especially Hyundai Motor Company, its largest manufacturer— will require *careful watching*. (The Hyundai Pony saloon based on an Italian body design with British and Japanese engineering technology is seen as the main challenge; but Hyundai will be producing commercial versions of the Pony as well in the not too distant future.) "The Korean motor industry, given the capital and technology, could become a formidable competitor for Japan," says Mr. Okuma. "But it will take time, say 10 to 15 years. Meanwhile what matters are the U.S. makers and their new series of subcompacts."

Mr. Okuma notes that General Motors (GM) has invested not less than $27bn in its first brand-new series of subcompacts, the "X-body series." GM is expected to spend another $35bn or so on its other projected small car "families," the J-car, T-car and S-car. Ford is also a worry for Japan with its Erika "world car," whose production is scheduled for both Europe and the U.S. The Erika could even turn out to be a competitor in Japan's limited import market in view of Ford's new tie-up with Toyo Kogyo, Japan's fourth ranking car manufacturer and the maker of Mazda cars and trucks.

Mr. Okuma's views on the relative seriousness of the U.S. and east Asian challenges to Japan are broadly shared by his opposite number in Toyota, the leading Japanese car manufacturer. Toyota Motor Sales Company's executive vice-president, Mr. Nobuji Araki, says: "The biggest challenge facing the Japanese motor industry is the rollback by U.S. manufacturers in small cars." Mr. Araki sees a strenuous three-way race developing among the American, Japanese and European car manufacturers during the next decade, with the key of new technology to reduce fuel consumption and cut down noxious exhaust emissions. Korea is "not likely to be much of a threat" during this period, says Mr. Araki; indeed, in his view Hyundai is already facing some fairly serious difficulties abroad.

Lucky

At one time the Korean motor industry (which so far as overseas markets are concerned means Hyundai) was selling up to 10,000 cars a month in overseas markets, but the number has now dropped to "a few thousand" according to reports reaching Japanese executives. This is despite the fact that the Pony sells for far less in major overseas markets such as Latin America and the Middle East than the 2.8m won ($7,000) price tag it carries in Korea. The trouble about the Pony in overseas markets, says Mr. Araki, is that there is no adequate after-sales service network and no proper supply of spares. "It took Japan 20 years to establish itself in overseas markets. The Koreans will be lucky if they can do the job in ten years."

Mr. Hiroshi Isogai, sales manager of the Asia-Pacific division of Honda Motor Company, says that lack of an adequate domestic market is the key problem for Korea at present. A big home market, as he sees it, is necessary to support the expenditure on know-how development and engineering needed to build a strong industry. Only after these conditions have been satisfied can the Koreans (or anyone else) aspire to succeed as exporters, says Mr. Isogai. One of Hyundai's vulnerable points (which can be traced directly to the problems of inadequate home sales and a corresponding lack of engineering resources) is that the Pony's engine is not Korean-made but imported from Japan's Mitsubishi Motor Corporation (a strong competitor of Honda).

Mr. Isogai considers that despite its aspirations to succeed as a motor exporter Korea is still basically in the motor cycle stage of evolution of its domestic vehicle market. Available figures indicate that there are 250,000 motor cycles and 450,000 cars on Korean roads at present.

Taiwan, which has not yet attempted to export cars and appears to have no immediate plan to do so, has 480,000 car registrations and no fewer than 3m motor cycle registrations.

Japanese motor executives are unanimous that if Korea has relatively little chance of exporting cars to Japan, Japan has equally little prospect of selling cars to Korea (at least so far as completely built up passenger cars are concerned). Both Korea and Taiwan maintain strict controls on car imports, either prohibiting them altogether or, in the case of Taiwan, permitting the import of a limited number of luxury vehicles under an extremely high tariff. Korea and Taiwan do import CKD (completely knocked down) kits for assembly by local manufacturers, but here again the amounts are strictly controlled and the main beneficiaries so far have been European rather than Japanese car exporters.

A Datsun production line at Nissan's Tochigi plant

The Japanese car executives are even less worried about competition from China (at least in the short term) than they are about the challenge from the non-Communist newly industrialised countries. China currently possesses a plant in Tientsin which was operated by Toyota before World War II and another in the north east (the former Manchuria) which was operated in pre-war days by Nissan. Both are said to be producing military vehicles with the aid of technology originally provided by the Soviet Union. Their output, together with that of another (smaller) plant in Shanghai which turns out taxis and limousines for use by high officials, is estimated at not much over 2,000 vehicles per year, with the emphasis on trucks and minibuses.

China, as Japanese motor industry men see it, is still at the "bicycle stage" and needs first to "graduate" as a motorcycle manufacturer. Because it possesses both abundant resources and an *intelligent* labour force there is no reason, as Mr. Araki sees it, why China should not become in the long run a major motor manufacturer, and exporter, if it wishes. But he believes the first of these milestones may take 10 years and the second at least 20 years to reach.

The fact that the Chinese are interested in motor manufacturing is indicated by the visit of several Chinese missions to Japanese motor factories. The missions have taken copious notes and asked numerous questions but have yet to betray any interest in technical tie-ups with Japanese car makers. But this situation could change with time, the Japanese believe.

Turning finally to the Japanese motor industry's own position, the consensus appears to be that there is still room for the car population to grow and that this should keep the industry on the move even if *exporting* becomes more difficult. Japan's ratio of 172 vehicles per thousand people compares with 629 per 1,000 in the U.S. and 260 per thousand in the UK. Mr. Araki believes that total registrations (now 21.28m vehicles) could rise to 35m units before saturation point is reached. At this level Japan would have about 1.5 vehicles per household compared to one per household at present.

Japan's annual output of vehicles (to complete what appears a rather overwhelming comparison with the Asian NICs) was 5.97m units in 1978, compared with 156,000 units in Korea and 77,500 units in Taiwan (expected to reach 120,000 units in 1979).

Dearth of new orders

SHIPBUILDING

RICHARD HANSON

IN 1592, the Japanese Shogun, Toyotomi Hideyoshi, was foiled in his attempt to invade the Korean peninsula by Admiral Yi Sun Shin who became a hero by defeating the Japanese fleet with an armada of revolutionary iron-clad "turtle" ships, probably the most advanced naval vessels of the day. In the early 1970s South Korea embarked on a plan to enable it eventually to rival the huge Japanese shipbuilding industry but this time the outcome may not be as decisive.

The serious challenges to *Japan's dominance in shipbuilding* came just before the worldwide collapse in the industry stemming from the 1974 oil crisis. In Asia both South Korea and Taiwan have built large shipyards. Japan's other major competitors emerged in East Europe, Brazil and elsewhere.

For the Japanese, the collapse of the shipping and shipbuilding industries has meant dramatic and painful cutbacks, bankruptcies and Government assistance. The peak capacity of Japanese yards had risen to 90m gross tonnes a year before the oil crisis. By the end of this year, under Government guidelines that capacity will be reduced to about 30m gt. Shipbuilding employment shrank from 87,000 in 1974 to 50,000 this year—a level which will probably remain stable as the companies hope for some recovery in the 1980s. The statistics on worldwide export ship orders illustrate clearly the reasons behind the collapse.

In 1978, according to Lloyd's Register, world-wide new building orders for 2,014 vessels totaling 8.2m gross tonnes were placed, down about 28 per cent from the 1977 total of 11.5m gross tonnes in 2,186 vessels. This compares with the 1973 peak for new orders of 72.8m gross tonnes, 1975 orders were only 19 per cent of the peak, 1976 was 18.2 per cent, 1977 16 per cent, and 1978 a bare 11.5 per cent of the 1973 record.

Ranked

Japan still ranked number one in its share of new orders, accounting for 44.3 per cent last year, but this was down from 52.6 per cent in 1975 and 56.3 per cent in 1976. Its new orders fell 39.4 per cent from 1977 to 3.6m gross tonnes.

South Korea, which ranked fifth last year among shipbuilding countries, saw its new orders drop to 298,000 gross tonnes, a 3.6 per cent share of the world total, or less than half the 620,000 gross tonnes won in 1977, which was a 5.5 per cent share. Its ranking was below Poland, Sweden and the U.S.

Taiwan, at the Government-owned China Ship Building Corporation's new 1m gross tonnes capacity Kaoshiung shipyard, has built only 18 vessels since opening. Its only new orders have been placed by local concerns.

The 12 West European shipbuilding nations' share of new orders has remained steady, over the past two years at around 25.6 per cent, while gross tonnage fell to 2.1m in 1978 from almost 3m in 1977. Their market share has risen from just slightly above 20 per cent in 1975 and 1976.

Nations outside Japan and Western Europe as a whole last year accounted for about 30.1 per cent which is down in tonnage by a small margin from 1977, but up in terms of share from 21.7 per cent. Holland has emerged as Japan's strongest single competitor. In 1978 it ranked second in world share, winning 523,000 gt in orders, or a 6.2 per cent share, compared with 358,000 gt in 1977, 3.1 per cent of the total. Similarly Brazil, which ranked fifth, increased its business from a tiny 3,000 gt in 1977 to 295,000 gt last year.

Japanese shippers see some improvement in the market from spring this year, particularly in dry cargoes such as grain and coal. There has also been an increase in the new ship orders being received at Japanese yards. In May alone the value of orders in Japan is estimated at about one-third that of all the last fiscal year's Y384bn. Fundamentally, however, there remains a large amount of excess tonnage around the world which will mean at least another two or three years before new building orders begin to increase significantly.

In these conditions the competition for ship orders is bound to be cut-throat. The Japanese yards running deficits have been forced in many cases to choose between going out of business or accepting orders at prices well below the actual cost of producing vessels. At one point last year shipowners were demanding (and getting) ships built in Japan at prices as much at 40 per cent below cost.

This presumably held true also for the Koreans and shipbuilders elsewhere in the world, although production costs in those countries are generally lower than Japan at this stage. What it amounts to is wholesale dumping of ships just to stay in business.

The question facing the Japanese industry is how competitive it will be in the future against countries like South Korea. First, it should be understood that Japanese shipbuilders have the built-in advantage of both solid markets in Japan and an assured market in sales of tie-in ships to Japanese affiliates abroad.

For fiscal 1978 ended in March, 52.7 per cent of all the tonnage sold by Japanese yards went either to domestic Japanese owners of tie-ins overseas. Approximately one-third of the tonnage built is for domestic owners, with about 20 per cent of the exports actually going into Japanese hands overseas. The importance of tie-in ships to the Japanese fleet has grown quickly since labour costs on Japanese-manned vessels began to increase sharply. It now costs about three times as much to maintain a Japanese crew compared with other South-East Asian countries; twice as much when compared with European crews.

This market for the Japanese shipbuilders is virtually guaranteed against foreign competition. There has only been one case of

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Less bound by the work ethic

LEISURE

STEPHEN BRONTE

WHEN A recent in-house official document of the European Commission referring to the Japanese as "workaholics" living in houses no better than "rabbit hutches" was leaked to the Press it created a sensation in Japan. Although the wording was later toned down by Sir Roy Denman to "diligence" and "frugality" during his spring visit to Japan, the original phrasing became an instant cliche with the Japanese. Since the report was made public every official visitor to Japan from the Commission has been plagued by endless inquiries on the true meaning and intent of the two words. "Japan Inc." and "economic animal" the Japanese instantly incorporated into their own language, "workaholics" and "rabbit hutches" as accurate, although depressing stereotypes of their lives and lifestyles.

But no matter how attractive the terms are to the Japanese, they are to a large exent incorrect. Japanese homes are definitely smaller than their European counterparts in terms of physical space. But as the testing ground for the world's largest consumer products exporters, Japanese homes have in the last decade been filled with an array of consumer conveniences and high quality electronic equipment that are still rarely found in most European homes. If the Japanese live in rabbit hutches, they are very comfortable hutches.

Overtime

Of far greater importance is the apparent misconception that Europe holds concerning the Japanese work ethic. Ten years ago the Japanese may have been the "workaholics" that the Commission report described. The Japanese economy was booming, growing at a rate of over 10 per cent a year, and there was a chronic shortage of workers of all kinds. The official six-day working week totalled 44 hours, but an additional 10 hours a week overtime was common. In those days the social and economic pressures were such that overtime assignments were rarely refused.

After 1970 the Japanese work ethic started to erode, for it was then that a number of anti-growth philosophies took root. The limits to growth theory propounded by the Club of Rome was widely accepted in Japan, helped along by the country's well-known shortage of natural resources, its obvious population pressures and its worsening pollution problems.

But it was after the 1973 oil crisis that Japanese devotion to work took a real dive. Manufacturing plants that had been working at full capacity for several years were closed down. Several large prestigious companies that had been heavily dependent on borrowed funds were forced into bankruptcy. Suddenly the rewards of a lifetime of hard work looked less certain.

Those who were able to hang on to their jobs found that with plant operating rates ranging around 70-80 per cent of capacity the call to overtime duty became less frequent.

The product of these trends has been steadily shrinking Japanese work schedules. The number of hours worked per month by an individual in the manufacturing industries has fallen from 207 in 1960 to 173.9 in 1976. The number of days worked per month during the same period has fallen from 24.2 to 21.2.

A comparison of labour statistics from the North-East Asian economies shows who in fact the real workaholics are. In 1977 a Japanese steelworker laboured an average of 168.5 hours per month. His counterpart at South Korea's Pohang Iron and Steel Company, the country's major steel manufacturer, worked 176 hours a month. In Taiwan the average worker in the manufacturing sector worked 200 hours a month, or roughly six eight-hour days a week.

A similarly striking comparison can be made by examining salaries from the three countries. The average monthly wage for a Japanese steelworker, excluding bonuses, equals $1,186. The South Korean steelworker gets $363 a month and the Taiwanese worker gets $172. In terms of hourly wage rates the Japanese gets $7 an hour, more than eight times the U.S. 86 cents the Taiwanese earns.

Simply looking at labour statistics, one can say that the Japanese stopped working as hard as the Taiwanese in 1962, i.e. 200 hours a month. When nationalistic Taiwanese and South Koreans pride themselves on "working harder than the Japanese" in the hope of some day catching up with Japan, they are basically correct.

Coincident with the shortening of the Japanese working week has been the rise of a concept that is essentially Western in nature: individualism. In the days when work was the primary concern the Japanese worker conformed with ancient tradition by merging his own personal identity with that of the group, or to its modern equivalent, the company. Workers were for the most part concerned with the welfare of their company first, and looked after their own personal needs only after the demands of the company had been satisfied.

The allegience of the worker to the group had important economic implications. Among other things it made easier the rise of large, labour intensive industries in which strikes were rare, and which eventually became highly competitive in the world markets.

Worker psychology in Taiwan and South Korea can still be described along similar lines. While group allegiance in these countries is traditionally not as strong as it once was in Japan, poverty, patriotism and the urge to catch up with the industrial world drive these peoples to make similar sacrifices.

The past ten years have seen a fairly rapid reversal of values of Japanese workers. Work, and therefore loyalty to the company, is no longer the priority that it once was. They will still sing the company song every morning at 9 a.m., but they now return home at 6 p.m. after working a regular eight-hour day.

Workers are increasingly viewing themselves as independent individuals possessed of their own free will, not as small but important cogs in a very large machine. Instead of spending most of their waking hours at work they are devoting more time to their families and to the pursuit of a leisurely lifestyle.

Fortunately for Japan, the decline of the work ethic has not yet reached the proportions of a "Japanese disease." Productivity does not seem to have been affected by this change in values, nor has it led to waves of strikes like those seen in that once powerful nation now suffering from the "British disease." The Japanese today still work harder than their European and American counterparts, although not as hard as their Taiwanese and South Korean competitors.

This change in Japanese values has been a major force behind the rapid evolution of the leisure-orientated society. For the first time in modern history the Japanese working class has some free time on its hands, and it is still in the process of discovering what to do with it.

The sudden conversion of a large part of the population to a leisure-orientated lifestyle created a boom in the leisure industry that has been continuing since 1970. It has also made the leisure business one of the few industries to come through the mid-1970s recession unscathed.

The Japan Economic Research Institute, using a very broad definition of the leisure field, and calculating in its multiplier effects on the economy, estimates that Japan's total leisure expenditure in 1975 was Y18,500bn, corresponding to 12.4 per cent of the country's nominal GNP in that year. The figure shows a dramatic increase over the Y9,600bn spent in 1970 and the Y4,100bn spent in 1965.

The largest share of this expenditure has gone into the travel business. The Japanese propensity to travel to certain places at certain times of the year can be aptly described by anyone who has tried to book a flight from Tokyo to anywhere during August, or book a train in Japan in early January. In fiscal 1978 3,525,000 Japanese travelled overseas, 84 per cent of them on sightseeing tours.

Sports

The past few years have also seen big changes in the way Japanese enjoy themselves. Outdoor sports are now more popular than they once were, being part of a shift from spectator sports (baseball, sumo wrestling) towards participatory sports (tennis, golf, skiing, archery). The traditional Japanese leisure activities of pachinko (Japanese pinball) and mahjong have gone into a slow decline.

Japanese industry has been quick to gear product lines to meet these new leisure trends, and in many cases has helped to create new leisure forms. The home repair field, an alien concept to city dwellers until recently, is being vigorously pushed by power tool manufacturers. The introduction of home sound movie cameras has expanded the options for amateur photographers. The food and beverage industries are designing products for consumption specifically by the outdoor crowd.

Japan has of course many years to go before it catches up with California in the pursuit of the leisure lifestyle. It may well never get that far. But the Japanese workaholic is now an anachronism, to be found only in the history books, or in European Commission reports.

Dearth

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Japanese owners in recent decades placing a major order with a foreign country. That was before the oil crisis when Japanese yards were operating at capacity, forcing Japan Lines and Kawasaki Kisen to order four VLCC tankers from Hyundai in South Korea. There were no signs of Japanese owners switching loyalty from Japanese shipbuilders—no matter what the price. If and when the market for ships improves, the Japanese industry will be poised to take the mothballs off unutilised capacity to ensure the wherewithal to supply these loyal customers.

While Japan has dismantled and mothballed all but 39 per cent of its peak shipbuilding capacity (34 per cent for the big shipbuilders, and 45 per cent for the small and medium companies), South Korea appears determined to forge ahead in expanding total capacity, which now is about 10 per cent of Japan's.

Hyundai Heavy Industries built its largest dockyard more than six years ago with nominal capacity of about 1.6m dwt per year. With the eventual completion of two other major yards, one by the Daewoo group and the other by Samsung, capacity will be doubled.

There are no accurate figures on the differences in cost between Japan and South Korea, but the Japanese estimate South Korean costs to be about 70 per cent to 80 per cent of those at the major Japanese yards. The biggest difference is in labour, which represents about 40 per cent of all shipbuilding cost.

South Korean blue-collar industrial workers earn about Y200-300 per hour, or about a fifth of that in Japan. It is believed that the effective overall labour cost in South Korea (allowing for differences in productivity) is about 60 to 70 per cent that of Japan, while in Taiwan it is around 60 per cent. Wage increases in recent years in South Korea have been steep (averaging 25 per cent a year) and inflation is the most worrisome problem facing the South Korean economy (thought to be over 20 per cent last year and rising). It is anyone's guess how long the large wage gap will remain.

Taiwan has considerably lower inflation, but it is not seen as a major force in the export market for the time being.

It is not known how the South Korea companies account for the enormous cost of the investment they have made in shipbuilding. While taking losses on operations, the South Korean businessman must also pay very high interest rates on his debts, now about three times the rates in Japan. These costs theoretically should be absorbed in the price of ships.

Technology in shipbuilding apparently will not be a major factor in Japan's favour for very long. While Japanese builders are well advanced in the fine details of design and technology, both Taiwan and South Korea are already just as capable of making basic tankers and other bulk carriers. Both Taiwan and South Korea depend on Japan and other countries for some equipment and machinery, but both are working on production facilities for large marine diesel engines which at present come from Japan.

The Japanese are not anxious to see South Korea advance its shipbuilding capabilities (Mitsubishi Heavy Industries, the largest Japanese builder, recently declined a request from Hyundai for skilled engineers and designers). But technology and skilled help is available elsewhere in producing more valuable and specialised vessels.

During the 1980s Japan will depend mostly on what has always been its essential advantage in the world market—its size, competence and ability to adapt to a drastically changed environment.

On the next three pages Charles Smith, Richard Hanson and Ron Richardson profile 10 people—eight Japanese, one British, one South Korean—who have a particular interest in Japan's relations and trade with its "new industrial country" neighbours.

The revolving stage

Taroichi Yoshida

MR. TAROICHI YOSHIDA, a small, pipe-smoking former Japanese bureaucrat who now holds the presidency of the Asian Development Bank (ADB), may be one of the few people in Asia who sees the relationship between Japan and its neighbours from both sides. Yoshida's bank has lent more money to South Korea than to any other developing (or semi-developed) nation in its region and borrowed more from Japan.

Nowadays the ADB seems to be interested mainly in the Asian countries approaching take-off (Malaysia, Thailand, the Philippines, etc.) rather than in those which have achieved take-off (Korea, Taiwan). But Yoshida remains personally interested in the problems and prospects of the NIC (newly industrialised nations) and their relationship with his home country.

Using the metaphor of the "revolving stage" (familiar to everyone who has visited the famous Kabuki Theatre in Tokyo) Mr. Yoshida says that advanced industrial countries like Japan, Europe and the U.S. have to resign themselves to disappearing off one side of the stage as a new group of "actors" appears on the other. "Japan may already have left the stage," says Yoshida, "and Europe should be prepared to do so, too, but both Japan and Europe may get the chance to come back on stage in new roles."

In other words, if they resign themselves to giving up some of the industries in which new industrial countries are becoming competitive (textiles, light electronics, etc.) they may find it that much easier to move into more advanced sectors.

On the question of which countries or regions are going to be most successful in restructuring their economies to make room for new industrial countries Yoshida says the chances of Japan, Europe and the U.S. are "notionally" equal. In practice, he concedes, Europe may be tending to lag in the development of new high technology industries. But the Europeans, says Mr. Yoshida, have other advantages such as "accumulated wealth" and "superior quality of life." Japan only recently woke up to the importance of the quality of life (as opposed to the size of GNP) "but this is something which is likely to get more and more important."

Mr. Yoshida says the EEC leads the world in the vital task of working out a horizontal division of labour between a group of neighbouring countries which have reached roughly the same stage of economic development. ASEAN (the Association of South East Asian Nations, whose members are Singapore, Malaysia, Thailand, the Philippines and Indonesia) has made a good start on tackling the same problem but in North-east Asia the situation is more difficult, he considers. The problem there is that two small but rapidly growing economies (South Korea and Taiwan) risk being dominated by one giant developed economy (Japan).

Japanese businesses must stop thinking about "hoisting the Japanese flag" over the region and must instead see themselves as "regional multinationals," says Mr. Yoshida. As a nation Japan needs to adopt a "sensitive" approach to regional relations, providing leadership without stressing the fact too openly in its public utterances.

Mr. Yoshida thinks that Japan may have to accept the internationalisation of the yen as a natural consequence of its economic pre-eminence in the region, but does not favour hurrying the process. "The U.S. economy is still fundamentally immensely strong and the dollar will regain strength too in the medium term, though naturally that depends in part on how successful the U.S. is compared with other advanced nations in handling inflation."

Returning to developing Asia and the potential obstacles to its growth Mr. Yoshida sees protectionism in advanced countries as the big problem in the short run, but not something which is likely to put a permanent brake on the region's development. What he regards as an almost equally serious problem is that of manpower development within the region itself. "The Koreans are lucky to have a foreman class between their elite and their rank and file workers—other would-be industrial countries don't have that," he says.

The problem in Mr. Yoshida's view is partly that the colonial tradition gave some countries the wrong ideas, causing them to favour an elitist Western style of education rather than a more pragmatic variety. The ADB throughout its technical aid programmes is launching an attack on this problem but it will take time as well as money. That does not alter the fact that developing Asia, in Mr. Yoshida's view, is very definitely on the move to a position where it can challenge if not equal the achievements of the advanced industrial countries.

C.S.

Ichiro Isoda

SUMITOMO BANK'S president, Mr. Ichiro Isoda, feels that the major trend in the world today is toward regionalism, a force most pronounced in European and American spheres, and one which is forcing Japan to question how it will forge new relations with the nations of North and South-East Asia.

Asia is the most promising market in the world, and Japan's deep involvement in those countries makes it likely that it will become the centre of the region, he says. Until now, the post World War II movement of Japanese investment into other Asian nations has been rather haphazard. "Almost 66 per cent of the foreign investment in South Korea has been Japanese, but this was mostly an unintended result. We have to be more careful in the future," he cautions.

Sumitomo's president is best known as a fair-playing sportsman. Forty years ago he ensured that reputation as the captain of Japan's national rugby team. A colleague describes Mr. Isoda's philosophy as "make a lot of effort, then leave it up to God."

Mr. Isoda has launched a major effort for Sumitomo Bank, Japan's third largest commercial bank, which, if his team is successful, will turn Sumitomo more international, following the pattern of the big American banks. Mr. Isoda, who became president in 1977, wants his bank during the next decade to break from the typical Japanese bank pattern of small profits from overseas business.

The core of what Mr. Isoda wants to do is to build up his bank's ability to advise and provide information to its customers on overseas conditions and affairs. He admits freely that Japan at present is woefully lacking in information about the rest of Asia. The business Japanese banks do in Asian capitals has traditionally been concentrated on serving the interests of the Japanese companies there. Understanding between those countries and Japan typically is marred on both sides by a lack of insight into the other's culture.

Mr. Isoda notes that programmes for exchanging students are inadequate, and not as mutually developed now as they were at the turn of the century (virtually no Japanese students go to countries like South Korea, preferring overwhelmingly Europe or the U.S.). President Isoda himself has only travelled to South Korea and China among Asian countries.

Mr. Isoda sees the pressures on Asia to look more inward as the result of European moves to consolidate relations between itself and Africa, and similar efforts in the Americas. He does not think, however, that closer regional ties in Asia will lead to a closed market situation.

The Japanese Government will continue to be very reluctant to allow the development of the yen as an international or for that matter regional currency in trade, Isoda says. Unlike Europe, where the majority of trade is among fellow European states, trade among Asian nations aggregates to only about 30 per cent of total trade.

The use of yen has been extremely limited when viewed in the context of the maturity and scale of the Japanese economy itself. Only about 2 per cent of Japan's imports are settled in yen, and less than a third of its exports are yen denominated. "A currency can't be internationalised artificially," Mr. Isoda comments.

He personally thinks a greater role for the yen should not be rejected, but Government fears that the possibility of outside forces disrupting the domestic economy, making it difficult to adjust to new problems, outweigh the "prestige" value. On the other hand, he points to the rapid growth of yen in international finance, in the form of long-term yen bonds and loans. The outstanding balance has now reached the equivalent of about $7bn.

Mr. Isoda thinks that China should move more firmly into the rest of Asia. While posing no threat to Japan in the near future, once China masters business administration and production techniques it will eventually provide Japan with strong competition. The two countries will depend on each other in the course of development. He expressed some degree of apprehension about China, however. "For the Japanese people, communism in China is hard to understand," he says.

As Japan further develops its ties in Asia, it will have difficulty in providing political leadership. Mr. Isoda believes that "as long as Japan is a non-military power, it is unrealistic to think of having political power." The assumption is still that "we cannot or should not become a military power, even if others want Japan to become a strong force," he comments. Japan will have to extend its influence by continuously doing economic favours.

R.H.

Tsuguhide Fujiyoshi

MR. TSUGUHIDE FUJIYOSHI, the 63-year-old president of Toray, Japan's biggest synthetic textile company, feels Japan has completed its role in the development of Asia's textile *industry*. "*We have taught them* everything that we know" he says. What Mr. Fujiyoshi is referring to is the huge amount of investment and scores of ventures the Japanese have completed in other Asian countries over the past three decades. With Toray leading the way, Japanese companies have about 258 textile ventures in Asian nations and control about 30 per cent of the production of raw materials that go into textiles in those nations.

Mr. Fujiyoshi, who joined Toray (then known as Toyo Rayon) more than 40 years ago, thinks the industry has reached full maturity and that it is time for his company to branch out into other endeavours (90 per cent of Toray's business is still related to synthetic textiles).

This does not mean that Toray is losing any confidence in its ability to compete with the emerging industrial nations in Asia. The technology gap between Japan and countries like South Korea and Taiwan will remain as the Japanese industry continues to advance into more sophisticated fibres and products. Those countries have already taken over much of the lower grade synthetic textile production, but will be hard put to compete in research and development, he says confidently.

Japan's large and well-developed (though presently ailing) petrochemical industry allows it to remain a major supplier of the raw materials for the textile industry in Asia, but this may change in the future. Mr. Fujiyoshi expects that there will not be any great increase in the volume of Japanese production. Japan is already importing about the same amount of textile products as it exports.

Mr. Fujiyoshi joined Toray when its main product was rayon (one of his teachers at Tokyo Imperial University thought there might be an interesting future for such a product). Not all that long afterwards Toray was able to develop its own nylon—close on the heels of America's Du Pont. After being drafted into the Army during World War II, spending two years in the interior of China, he returned to the company and in 1951 negotiated a very important licence for nylon production with Du Pont.

In the 1950s Toray began its first major investments in Asia, starting in Hong Kong. Eventually Toray established about 45 ventures in Asia and now stands as the second largest Japanese investor overseas, outstripped only by Matsushita Electric Industrial. It has about 30,000 employees working for its ventures overseas, or more than twice the number it employs in Japan. Overseas sales are about half its total turnover.

The Japanese textile industry was among the first major Japanese industries to expand rapidly overseas. Mr. Fujiyoshi says Toray's expansion was not the result of a deliberate pattern. The company simply found in many cases that its market in countries to which it exported could only be kept by switching production to those localities. As a rule it has tried to establish 50-50 joint ventures, which under the pressure of nationalism in some countries eventually dropped to minority *shares with local interests taking* over. Toray has only about 300 of its Japanese staff overseas.

In Taiwan, for example, it purposely allowed its share in a venture to dwindle so as not to offend China, with which country trade has increased to about the same level of exports to the U.S. (China was Toray's biggest customer before the war.)

Mr. Fujiyoshi believes in the principle of a global division of labour, with more labour-intensive parts of the industry moving to low-cost areas. But the key to Toray's position in the industry is that it will continue to control the flow of technology to its overseas affiliates.

Meanwhile, Toray, while viewing further large investments in the Asian textile industry as unlikely, would like to move further into the U.S. and Europe along the lines of its joint venture in Italy to produce a high quality synthetic suede-like material.

China is looming very large in the thoughts of Asian textile men these days. Mr. Fujiyoshi says the prospect of massive Chinese textile exports to earn much needed foreign currencies is already "fearful," particularly in markets like Hong Kong. China faces some very serious long-term problems of its own, however.

When Mr. Fujiyoshi visited China last year, he says, it was

apparent that the country would have difficulties in providing its own people with the enormous volume of textiles required. Cotton production will have to give way to the need to use land to feed the huge population. this will require a switch to synthetic materials, he says.

China has three synthetic fibre plants operating and it has supplies of natural resources such as oil and coal. The need for foreign exchange to finance this development could unleash a flood of exports.

Mr. Fujiyoshi sees the oil price increases this year as the major uncertainty for the synthetic textile industry in Japan—but the textile industries of all producing countries in Asia will face the same problem.

R.H.

Nam Duck Woo

"OUR APPROACH is to create a problem or a challenge this year, then try to solve it next year. The Government can set out some policies or goals. After that it is up to the energy and initiative of our business community to achieve them."

The speaker is Dr. Nam Duck Woo, for five years from 1974 until December 1978, South Korea's Deputy Prime Minister and Minister for Economic Planning. Dr. Nam was outlining some of the thinking behind the policies that he implemented, which guided his country through its most rapid phase of economic growth.

Among the pressing problems that the country has yet to solve, according to the 55-year-old former university economics professor, is its growing trade deficit with Japan. Last year this reached U.S.$3bn compared with U.S.$1.8bn in 1977, and was almost twice the size of the overall trade gap.

The problem is serious, he says. "*We are heavily dependent on raw material input from Japan, while our traders find it very hard to penetrate the Japanese market as our industries are competitive in many areas rather than complementary. But we are not the only ones who are suffering from this problem vis-a-vis the Japanese.*" The former Minister, now an advisor to President Park Chung Hee, believes Korean companies *are facing the same* barriers as those which have antagonised European countries in their attempt to sell to Japan. There are also some added difficulties in Korea's case.

"Many Japanese companies are partners in industries in Korea and they don't want our companies to sell these goods back to Japan."

● We may make some progress with this problem, but there is *no simple answer.* Basically, there are three things that have to be done. "First, Japan must speed up structural adjustment of its economy so there can be outside foreign suppliers in certain industries.

● We have joint ventures in Korea with the Japanese which use some raw materials imported from Japan. But they want to sell the products of these companies in other countries and not in Japan. So, second, we must *take more care* with licensing agreements and technical deals so that we are not restricted and can sell in their market.

"Third, we must also be more active in marketing and should not face any hindrance from the Japanese." At present, says Dr. Nam, there are many hidden barriers and established marketing tie-ups which block trade in his market, although *the situation* has improved a lot in recent years.

Sitting back in his office, which like all Government buildings is open to Seoul's humid summer breeze—a concession to the energy saving campaign—Dr. Nam looks to a future of greater industrial co-operation with *Japan.* The relationship he envisages is based on intra-industry specialisation.

"*Developing* countries are said to be taking over from developed countries in the labour-intensive industries. This, I think, is inevitable. But rather than leading to conflict, it could lead to another form of economic relationship based on co-operation in which different countries specialise in different areas of the same industry. This could involve Korea and Japan making different parts of products *within the same industry* — making machine tools, for instance. In the automobile industry we do not make all the parts for Korea-made cars. We already import many of the more sophisticated parts. By working together with the Japanese in this area, then exporting what are jointly made cars, we benefit each country by concentrating on our own areas of comparative advantage.

"But all we can do at this stage is point out to our industry leaders the possible advantages and let their initiative work it out from *there. I also hope the Japanese* business leaders will see this."

Dr. Nam is modest about the part he has played in overseeing Korea on its way from being one of the more backward countries of Asia in the 1950s to the stage where, in the judgement of the World Bank, it is on its way to becoming a developed industrial economy by the early 1990s.

"The basic factor was the *energy and ingenuity of our* business community." Dr. Nam insists. The Government gave emphasis to the drive to build up export markets, helped by developing a logical industrial strategy, while industry had access to an energetic and well-educated labour force. "But all this was not my idea," he insists.

But one idea that he does want to put forward is that South Korea must learn from the mistakes Japan has made in its earlier drive towards economic maturity.

"*One thing we have avoided* is the Japanese trade policy of storming exports where overseas sales are concentrated in only about five major products —autos, steel, ships, cameras and colour TV. We have set out to develop our markets worldwide and to guard against concentration on just a few items of exports.

"We will also be able to avoid dependence on exports through emphasis on our domestic market—this can be *our second engine of growth.* The development of social infrastructure, housing, road improvements—there are many things to be done.

"Do we have the resources—I say yes. All this will have the effect of developing our domestic market. And in the end we must live by our brains and hands . . . that is our future —scientific and technical competence."

R.R.

Yoshiji Miyata

MR. YOSHIJI MIYATA, president of the Japan Council of Metalworkers' Unions (IMF-JC), at a recent meeting *of the Geneva-based International* Metalworkers Federation (IMF) tore into a Swedish delegate who strongly denounced South Korea as completely lacking trade union freedom.

"The South Korean union movement *is limited, but it is* there," retorted Mr. Miyata, who knows South Korea well and is vice-president of IMF. Mr. *Miyata,* as the chief link between Japan's most powerful industrial federation of unions, the IMF, and the union movements in the newly industrialised countries (NICs) of Asia, does not accept that unconstructive public denunciation of the unions in his domain by outsiders will help safeguard their existence.

As he travels through Taiwan, South Korea and elsewhere in Asia, Mr. Miyata does not make an issue of local politics, or of the controls other governments place on union movements. The IMF-JC maintains close ties with Asian unions by constant exchanges of meetings and lectures. It also helps with negotiations between local unions and overseas Japanese employers by providing information on the parent company. *Finally it serves as a key* channel for the region's unions to the IMF headquarters in Geneva on subjects of broad *importance* that the IMF-JC will not involve itself in alone.

Mr. Miyata, a veteran of Japan's labour struggles, joined the union organisation of Yahata Steel on the southern island of Kyushu in 1947, when he was 22. Yahata has since joined with Fuji Steel to create the world's largest integrated steel maker, Nippon Steel. Now 55, Mr. Miyata has been in charge of IMF-JC since 1973; the organisation covers steel, cars, *shipbuilding, metal and* machinery workers, electrical workers and a number of independent unions and claims a total membership of nearly 2m.

Unions in the metal industries in South East Asia and to the north are surprisingly widespread, with membership running at around 50 per cent of employees. The unions themselves, however, remain in weak positions.

IMF-JC through lectures has attempted to "pass the message" to union organisers, promoting the principles of collective bargaining and teaching effective methods for organising unions.

The unions in Taiwan and South Korea face similar problems with their governments. While the right for unions to exist is recognised, both countries refuse to allow workers to stage strikes or otherwise disrupt industry. Part of the reason is economic and part the fear of Communist use of labour disruption as a *political weapon.*

The IMF's affiliated unions in South Korea have 123,000 members and in Taiwan 134,700.

Despite the relatively weak positions of the unions, wage increases in both countries have been sharp and constant over the past several years. South Korea in particular has been hard pressed to keep inflation from outpacing wages. One projection shows that if the current pace of wage increases continues, South Korean salaries could theoretically overtake those of Japan in 1981. Because low wages represent the key to South Korean competitiveness, the Government there clearly has to keep this from happening.

Even though wages are catching up rapidly, Mr. Miyata thinks countries like Taiwan *and South Korea* are at the stage of development Japan reached in 1955 in terms of standards of living and social infrastructure. While Japan was able to improve the lot of its people gradually over the following two decades, the NICs are being forced to take rapid leaps to make up for lost time. Mr. Miyata notes that when the Korean and Taiwanese consumer tries to match the standards of countries like Japan, he is faced with a baffling variety of expensive appliances standard now, which 25 years ago were not *around to tempt the hard working* Japanese wage earner. This attempt to catch up will cause serious internal frictions in *countries like* South Korea.

Even so, in five or ten years Mr. Miyata expects that the standards of living in the NICs (except the poorest of them) will begin to equal those of Japan. There remain, however, differences between those countries and Japan which will still tend to favour the Japanese economy. The high propensity to save among Japanese, for example, will always give *Japanese industry* a *ready source of investment funds.*

Mr. Miyata feels it possible that Japan will eventually turn away from the current heavy emphasis on domestic industries like steel and shipbuilding as developing countries emerge as strong competitors. The distribution of labour internationally will shift more from a vertical orientation by nations to a horizontal framework in which industries shift from nation to nation, he believes.

Meanwhile, Mr. Miyata does not think there is any reason for people in the NICs to resent Japanese investment and business in their countries. The Japanese Government, business and the unions have agreed that *investments in those countries* should only be made when it is requested, and that profits from local operations should be used to benefit the local *economies* rather than simply repatriating them to Japan.

Asia appears to be bracing itself for the re-emergence of China as a major factor in trade—with the South Koreans, for example, worried that cheap Chinese labour will threaten their textile industry. Mr. Miyata, however, does not see China as a disruptive force for the next decade or so because of the country's preoccupation with internal development. The centrally planned economy in China will avoid "recklessly coming out into the world," he thinks. China will become a major political force in the region but it will not direct *itself at specific markets or* nations.

Japan itself should be in a position to give economic aid to countries faced with internal problems which threaten the area's security, and should to some extent even participate in the defence of the region. Economic factors, Mr. Miyata believes, are a major cause of wars.

R.H.

Bill Dorward

BILL DORWARD is a burly, bearded ex-Colonial Office official who takes over responsibility for Hong Kong's trade and industry policies this autumn. One of his main problems will be what to do about the Territory's economic relationship with Japan. The part of the relationship that concerns him *particularly is* that Hong Kong's imports from Japan have been running at almost ten times the level of its exports and that the Japanese market has seemed curiously unreceptive to its made-up garment exports.

"This wouldn't have surprised us particularly if we were facing similar problems elsewhere," says Mr. Dorward, "but Japan appears to be a special case." Hong Kong has done far less *well in the Japanese market in* recent years than Korea and Taiwan, while holding its own very successfully against these two competitors in the U.S. and Western Europe. "We considered various explanations for our lack of success in Japan such as language or cultural ties and eventually came up with investment," says Mr. Dorward.

Actually, Mr. Dorward admits, it is not particularly surprising that Japanese investment in Hong Kong is far smaller than Japanese investment in Taiwan, Korea or Singapore. Something like 90 per cent of Hong Kong's *industrial investment* has been locally generated (in contrast with Singapore where the bulk of investment has come from abroad). This is because the emphasis of Government economic policy has been on export promotion and trade "facilitation" rather than on drumming up investment.

Mr. Dorward says that it would have been theoretically possible for Hong Kong and Singapore to have switched roles, that is, for the former to have stressed investment promotion and the latter export promotion. *As it is, he says,* there seems to be a feeling in both places that the time has come for some adjustment of the balance. Hong Kong accordingly is starting to think about appointing its first resident overseas investment promotion officials. "At the moment we have three peripatetic people but no one who is actually based overseas" says Mr. Dorward. Hong Kong's semi-governmental Trade Development Council (TDC) has plenty of overseas offices (no fewer than 17 at the last count) but their job hitherto has been *only* to push exports.

Mr. Dorward hopes to establish three permanent investment promotion offices (in Europe, the U.S. and Japan) within the next few years, but in the meantime special treatment is already being given to Japan. The colony dispatched a mission to Tokyo in the autumn of 1978 which was headed by the governor and included the chairmen of many leading local enterprises (*including the Hong* Kong Bank and Jardine Matheson and Co.). After that, at the suggestion of the *Japanese Foreign Minister,* Mr. Sonoda, a Hong Kong Japan business co-operation committee was formed to consider ways of actually getting Japanese companies to invest in the British colony.

"We are mainly interested in small- and medium-sized companies *since the big zaibatsu* are already represented everywhere," says Mr. Dorward. "What we offer is the most productive and disciplined labour force in Asia after Japan's" (because Hong Kong's labour force is 100 per cent Chinese and has not yet lost the Chinese work ethic—as he claims has happened in China itself). "What we are looking for is technology and management—not money of which we already have plenty."

Mr Dorward says Hong Kong made a point of starting "at the very top" in its dealings with Japan "because we had been advised that that was the right thing to do." The problem that now has to be solved is how to *get down to the grass roots level* where actual investment decisions are taken. This clearly is going to take time, but he claims that there is plenty of Japanese goodwill (a fact which may partly reflect Hong Kong's avoidance of the familiar "head on" tactics adopted by the EEC and the U.S. in demanding the reduction of their Japanese trade deficits). In time he expects that medium-sized and "innovative" Japanese investors will start coming forward.

Mr. Dorward's job as Director of Hong Kong Trade and Industry (to which he succeeds in October) *represents* the culmination of a career which began in the late 1940s after he

"escaped" from the Colonial Office in London. Hong Kong was a "sleepy place" with a population of 600,000 when he arrived there and seemed not to be going anywhere in particular. By the early 1950s the population had reached 2m and the Government had become committed to creating an "ambience" for industry. Bill Dorward lived through the process of developing a commercial policy for Hong Kong "by the seat of our pants" during the 1960s. He now expects to be involved in creating, not just an "ambience," but a positive strategy for the next phase of Hong Kong's industrial development.

C.S.

Takami Takahashi

TAKAMI TAKAHASHI, the 50-year-old President of Nippon Miniature Bearing Company, says he does not know why he became one of the first Japanese businessmen to invest in Singapore (in the early 1970s). "It seemed the natural thing to do." On second thoughts he offers the explanation that every company which is manufacturing oriented (rather than development or marketing oriented) must look to its labour costs and NMB started worrying about its costs as long ago as the early 1970s.

"When I originally took over at NMB I decided to set up a plant in Karuizawa (a mountain resort outside Tokyo) because I thought people would like to work there and we would be able to get good labour," he says. "When my girls in Karuizawa started growing up into women I thought the time had come to make another move." Mr. Takahashi chose Singapore for his move because he sees it as the "countryside of the West, whereas Taiwan and Korea are the countryside of Japan." His experience in the U.S., where NMB had started making bearings even before it moved to Singapore, had made him feel that Singaporean business methods would be easy to live with. His guess proved right, which is one reason why NMB now employs more workers at its three factories in Singapore than it does in Japan.

Mr. Takahashi says the *present labour force of NMB has a structure like an inverted* pyramid, with 5,000 Japanese and U.S. employees in the top part and 3,000 Singaporeans underneath. He would like to turn the pyramid the right way up—that is, to have more employees in developing countries than in advanced countries. But he has doubts whether Singapore can accommodate more than another 1,000 or so extra NMB workers—the strains on its labour resources being what they are as a result of other new Japanese investment.

Mr. Takahashi is also doubtful about the prospects of some of the dozens of other Japanese companies which have flocked into Singapore in recent years (following the fashion which NMB set as long ago as 1972). The typical big Japanese company represents the top layer of a horizontal business structure he says: in other words it depends on numerous support industries (which in turn may depend on still others at lower levels of the industrial structure). Horizontally structured Japanese companies which move into countries like Singapore face the problem that support industries there are not highly developed. NMB's case is different because, unlike most Japanese companies, it is vertically integrated—doing everything from raw material processing to turning out *finished products.*

Mr. Takahashi, a small man with a big head who radiates energy, joined NMB as its president 20 years ago after becoming frustrated with the extreme conservatism of the big textile company he was working at before. The company had 55 employees at the time and was producing specialised miniature bearings for the small *Japanese* domestic market (small because Japan at that time had almost none of the sophisticated defence-oriented industries which require miniature bearings). In the early 1960s he decided to import U.S. bearings machines but realised that there would be no point in doing this unless he could expand his sales outside Japan.

He went to the U.S. in 1963 and secured one $80,000 order *for three types of bearings, which was equivalent to 10 per* cent of his domestic Japanese market (covering 200 bearing types). Mr. Takahashi moved to Karuizawa when his U.S. sales took off and by the late 1960s was selling 40 per cent of the miniature bearings bought in the U.S. "That was when the trouble started. The U.S. industry started opposing our exports and I soon realised they were right. One country is bound to display patriotic nationalism when another sells so much. The solution was for us to invest in the U.S." (which NMB did in 1971).

Mr. Takahashi says the U.S. is a "fair" market where "you can succeed in three years if you have a good product, good prices and good delivery." In Europe it takes eight years and in Japan ten because the markets in these countries are less "fair," he says. By "not fair" he means (in the case of Japan) that success depends on which major group a company is affiliated to, who its bankers are and so on. NMB would probably never have grown to its present size if it had been content to do business only in Japan—"but struggling with the pressures in Japan gave us the energy to succeed overseas." Hence the emergence (though Mr. Takahashi himself does not use the expression) of NMB as one of the first genuine Japanese *multinationals.*

C.S.

Takeshi Yasukawa

MR. TAKESHI YASUKAWA is one half of Japan's answer to Ambassador Robert Strauss (President Carter's ebullient Texan special trade negotiator). He holds the title of Government Representative for External Economic Relations (with direct responsibility to Prime Minister Ohira). His job, at the moment, is to make frequent trips to the U.S., Europe and most recently South East Asia to explain Japan's economic policies and, if possible, win acceptance of them from his (sometimes reluctant) hosts. The other half of Japan's external economic relations team, Mr. Nobuhiko Ushiba, is exclusively concerned with keeping Japan's end up in the Tokyo Round negotiations. When these are concluded (it is hoped later this year) Mr. Ushiba will retire, leaving the field open to Ambassador Yasukawa.

Yasukawa's personal style (unlike that of the rumbustious Ushiba, who has frequently crossed swords with other foreign trade negotiators and even with Prime Minister Ohira) is understated and emphasises the typical Japanese virtue of patience. Mr. Yasukawa seems to think that in the course of two trips to the U.S. and two to Europe since the beginning of this year (when he took the post) his approach has begun to make an impression. The climate in Brussels was less "harsh" when he was *there recently, he says,* than during an earlier visit in March. However, problems lie ahead with the EEC, not only in the field of bilateral trade, but also over the problem of how to handle the vexed issue of safeguards in the Tokyo Round negotiations.

Mr. Yasukawa says that Japan stands "somewhere in the middle" between Europe and the newly industrialised countries of Asia on the question of whether or not GATT's controversial Article 19 should be interpreted to mean that member countries can invoke selective safeguards against the imports of other members (in other words whether the EEC, for example, should be allowed to restrict imports of TV sets from South Korea without imposing similar restrictions on trade between its member countries). Some "selective restraint," he thinks, may be inevitable in future considering the rate at which exports from new industrial countries are growing and the difficulty old industrialised countries seem to behaving in *absorbing them,* but Japan thinks that, at the very least, importing countries should be obliged to undertake prior consultation with exporters before introducing safeguards.

Mr. Yasukawa sees the safeguard problem as the main obstacle to the signing by new industrial countries of the Tokyo Round agreements. A lesser problem, which he admits may also be causing some countries to withhold their signatures, is Japan's failure to do very much up to now in the way of liberalising its imports of agricultural products from such countries. Japan restricts imports of silk, fish and seaweed from South Korea and of tapioca from Thailand (to name a few of the fairly numerous bones of contention with the countries concerned). Mr. Yasukawa does not think removal of barriers on these items would have any very drastic effect on Japan's overall trade imbalance, but it would upset localised and influential groups in Japan, and the chances of the Government overriding the wishes of such groups are not rated highly.

Trade in agricultural products is far less important than industrial trade between Japan and the NICs, Mr. Yasukawa thinks, and he expects the imbalance (in Japan's favour) in this area to right itself as countries concerned modernise their industry. Japan had a big deficit with the U.S. in the early 1960s but turned the tables on the Americans when its car and electronics exports took off from the middle of the decade. There is no *reason,* says Mr. Yasukawa, why countries like Korea should not do the same thing vis-a-vis Japan.

C.S.

Saburo Okita

THE EMERGENCE of new industrial countries is an "*inevitable* process that cannot be halted by artificial means," according to Dr. Saburo Okita, one of Japan's best-known economists and the brain behind the famous "Income Doubling Plan" of the early 1960s (when Japan set out to double its GNP in 10 years and easily exceeded its target). "If Korea, Taiwan, etc., expand their exports too fast we can ask them to adopt orderly marketing measures," says Dr. Okita, "but there are limits. It would be illogical for us to try to stop such countries developing their exports and moving into new industries when we have been asserting our rights to do precisely this vis-a-vis the West. We have only one choice—to keep on moving into more advanced areas ourselves. Fortunately we still have some dynamism left."

Asked where all this leaves Europe and the U.S., Dr. Okita makes two points. First, he says, there should be room for horizontal specialisation in advanced products — for example in the rapidly growing field of integrated circuits (where there is already a two-way trade between Japan and the U.S.). Secondly, if the advanced Western nations cannot hold their own in the markets of developing Asia it may be their own fault.

"Places like Korea, Singapore and Taiwan could provide a testing ground for the competitive strength of the West," says Okita. "If we buy their labour-intensive products, as we will be doing more and more from now on, they will have the money to buy Western goods. The West says that the reason why it cannot sell more in Japan is because the market is closed. We will be able to tell how far that claim is justified by the West's export performance in the newly industrialised countries."

Dr. Okita says that increasing *industrial specialisation is one* of two paths likely to be taken by Japan over the next decade as its neighbours move into the middle ground of industry. The other will take the form of capital export. "The UK was exporting nearly 6 per cent of its GNP in the form of capital before World War II, while the U.S. exported about 4 per cent during the period of the Marshall Plan. If we export as much as 1 per cent from now on that will mean a total of $10bn a year—in the form of direct overseas investment, long-term bank lending, overseas aid and the tapping of the Tokyo capital market by foreign borrowers. Actually as much as 2 per cent is possible, so capital exports from Japan could be making a very significant contribution to global development from the early 1980s onwards."

Asked about the possibility that some countries might find themselves importing politically unacceptable amounts of Japanese capital Dr. Okita says: "What about China? We could spend our money building a 300m kW power station on the Yangtse River—that would be for the good of mankind." China's economy, in Dr. Okita's view, is not likely to live up to the projections of its 1978 modernisation plan (which calls for 4 per cent growth in agriculture and 10 per cent growth in industry over the next decade). But will still be "as big as that of Japan by the end of the century." "The Chinese are aiming for 45m tonnes of steel by 1980 (a downward revision from the earlier 60m tonnes target). They should be able to double that figure before the year 2000 which would give them a production equivalent to ours today."

Despite his assumption that the Chinese economy can and must grow Okita does not agree with the view that China is about to start disrupting world trade with cheap industrial exports.

Dr. Okita, who is 64 and has held practically every major public post which a Japanese economist can hold, says "educating the younger generation" of Japanese businessmen is one of the ways in which he plans to spend the rest of his career. "I still travel for 40 per cent of the time, making 12 or 13 trips a year, but I may have to slow down presently. What I will be doing from now on is telling the 30- *and 40-year-olds how to make* their outlook more international."

Dr. Okita and some colleagues started an institute to just that end on December 8, 1978 (the 37th anniversary of Pearl Harbour). "We seem to be getting a good response so far—perhaps because Japan has no choice but to become international."

C.S.

Ganri Yamashita

JAPAN IS NOT, repeat not, planning its defence strategy from a regional point of view, says Mr. Ganri Yamashita, the carpenter's son turned conservative politician who now holds the post of Director-General of the Defence Agency (equivalent to Defence Minister in other countries). Japan's defence forces have been self-defence forces ever since they were reconstituted in the early 1950s, and they are going to stay that way. Regional defence remains a matter for the American Seventh Fleet and the other varied elements which make up the U.S. presence in the Western Pacific (including its nuclear presence).

Mr. Yamashita sounds confident when asked if the American presence will continue to be a match for the growing Soviet naval presence in the waters around Japan. He admits, however, that Japan is "gravely concerned" with the Russian naval build-up and says it would like to protect its freedom of movement along the sea lanes of the Western Pacific. So far Russian naval exercises in the neighbourhood of such sea lanes have not caused problems for Japan, but the situation needs watching, he implies.

Yamashita says he thinks America's commitment to maintaining stability and looking after its friends in the Far East has not changed fundamentally since the end of the Vietnam war, even though the number of U.S. forces in the area has fallen from 800,000 to 130,000. "The Americans have not changed their attitude to Taiwan" despite normalisation of diplomatic relations with China, he says. In Korea, the withdrawal of American ground troops would produce a "serious" impact on the military balance between North and South, but Mr. Yamashita says he has the impression that President Carter's withdrawal plan is being reconsidered.

Mr. Yamashita believes the argument that Japan is getting a "free ride" in defence (i.e. that it should step up its defence spending so that the U.S. can spend less) is being heard less frequently in Washington these days—and should in any case not be listened to seriously. Economy and defence problems should be dealt with separately, he says, and Japan should certainly *not* allow its defence expenditure to rise above the self-imposed ceiling of 1 per cent of GNP just because of congressional critics in Washington.

The 1 per cent ceiling probably will be exceeded eventually, he says. (There is nothing in the Japanese constitution which prevents this happening and defence is after all becoming more expensive.) But the ceiling should remain in place for a considerable time. One reason not to be in a hurry is that Japanese public opinion remains firmly pacifist, even though there is less disposition than before to believe that the mere possession of defence forces is something to be deplored.

In so far as Japan does strengthen its defence capacity over the next few years, Mr. Yamashita says, the accent will be on quality rather than quantity, with special attention to electronic communications systems and to improving the "preparedness" of the Self-Defense Forces. Asked what he means by preparedness, Mr. Yamashita notes that Japanese warships still do not carry torpedoes which they clearly should if they are going to be much use in deterring the Russians. Japan's definition of self-defence includes patrolling the high seas in its neighbourhood "up to a point" and does not only mean cruising around in territorial waters, he says.

Mr. Yamashita says he is doing the defence job in the present cabinet because he was given it by Prime Minister Ohira, not because of any special interest in the subject. He did serve, however, as a Captain in the Imperial Navy from 1943 until Japan's surrender in 1945. Ex-naval officers may or may not count themselves as an elite in present day Japan (a fact alleged by some non-navy men) but Mr. Yamashita says that his old navy friends "certainly count among my most important human resources."

C.S.

The new order for oil

BY RAY DAFTER, Energy Editor

LEADERS AT last week's economic summit in Tokyo have returned home reasonably satisfied that the agreement to limit their countries' oil imports will ease the world's energy problem.

The compromise set of self-imposed restrictions can be criticised as being too conservative, as being too little too late. On the other hand, the decision marks an important step towards bringing energy supply and demand more into balance.

In the case of the U.S. whose unrestrained thirst for imported oil has done so much to aggravate international energy ills, President Carter agreed to limit imports to 8.5m barrels a day (close to the present level) through to 1985.

This may be a far cry from the target of energy self-sufficiency outlined in the "project independence" programme which emanated from the White House immediately after the 1973-1974 crisis. But it is still an improvement on what might have been: Exxon, in its recent report on the U.S. energy outlook for 1979-1990, estimated that without concerted action the country's level of imports could reach 11.4m barrels a day by the mid-1980s. Other industry estimates had put possible import levels as high as 16m b/d.

OPEC strings

The summit leaders may have relieved some of the future pressure on oil exporting nations. But they must have left Tokyo painfully aware that they are a long way from controlling the international energy picture. The Organisation of Petroleum Exporting Countries still pulls the strings.

Indeed, the orchestration of last week's top-level conferences highlighted the relevant position of the exporters and importers. The Organisation of Petroleum Exporting Countries acted, raising the price of "marker" crude from $14.55 a barrel to $18. Other crudes were priced at up to $23.50 a barrel although ceilings were imposed on the various market surcharges in order to "bring some stability" to the pricing confusion. (It is often overlooked that one of OPEC's articles of objectives lays down that the Organisation members should "devise ways and means of ensuring the stabilisation of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations.")

On the following day—Friday—the summit leaders reacted. The "unwarranted" OPEC price rises were "deplored"; they were bound to have very serious economic and social consequences, it was said. But almost immediately the Government heads were forced to swallow again when it was reported that Colonel Gaddafy was planning to halt Libyan exports for at least two years. The threat may be dismissed as belated reported of posturing by Libya at the OPEC meeting. But it is indicative of the current power of the producers and the supply insecurity of importers. As one senior oil analyst put it at the weekend, if Libya with its estimated 1.8m barrels a day of exports did shut down, both OPEC and the summit leaders would have to return to the conference table to rethink their position.

The final communique from Tokyo implicity acknowledged the importers' vulnerability. The most urgent tasks, it stated, were to reduce world consumption and to hasten the development of other energy sources. It also implied that the major importing nations were still unsure of the detailed workings of the international oil markets, particularly the volatile spot market, and of the way prices were adjusted through the production, distribution, refining and marketing cycles.

In what may prove to be one of the most important moves by the summit leaders, a new international examination of oil industry activity is being established. A register of international oil transactions is to be opened in order to "bring into the open" the working of oil markets, the communique said. Oil companies and oil exporting countries are being urged to moderate spot market transactions. At the same time, the seven nation summit meeting agreed that it would seek to achieve "better information on the profit situation of oil companies and on the use of funds available to these companies."

Scepticism

Both sets of proposals were viewed with a good deal of scepticism by those in the oil industry yesterday, not only because they saw the move as a further restriction on company activity but also because they feared the creation of a paper-swamped bureaucracy unable to see the wood for the trees.

The spot market is often perceived as a price inflator and a troublesome impediment to oil movements. This is particularly the case at present, when crude oil is in general short supply and when some companies are willing to pay up to double normal contract prices in order to obtain badly needed feedstock for their refineries. The problem is compounded because in recent months the national oil companies of exporting countries like Iran, Iraq and Libya have been using the more lucrative spot markets to dispose of a higher than normal proportion of their output.

Within the U.S. Department of Energy it is tentatively estimated that perhaps 5 per cent to 7 per cent of internationally-traded crude oil and products is now being sold in spot lots. Surprisingly, this is only a couple of percentage points above the normal trading position. The big difference at this time is represented by the type of oil being sold through Rotterdam and other spot markets. Today, the vast majority of transactions involve crude oil — the ultimate buyers are usually integrated companies too short of fuel and chemicals to put oil products back into the market. In times of more plentiful crude supplies, a higher proportion of products would be traded in the spot market.

Keeping track of such transactions is at best extremely difficult, at times virtually impossible. It is possible that a consignment of oil could be traded three times before it reached a refinery: one trading company might buy some oil from a producer and then re-sell it to another trader who in turn would sell it again to a refiner.

"It is hard enough for people within the industry to know what is going on, let alone those on the outside. All these deals are done confidentially" commented Mr. Vincent Sgro, publisher of the weekly trade journal, Oil Buyers Guide.

While it is the hope of importing countries—and to a certain degree members of OPEC—that the spot market activity will eventually be reduced, it is hard to foresee all spot transactions being eliminated.

"The spot market will not go away," said Dr. Gary Ross, of the Petroleum Industry Research Foundation in New York. "It is like a partly inflated balloon: squeeze it in one place and a bubble will appear elsewhere."

The spot market serves a useful purpose in that it helps to synchronise oil production with downstream activity. It helps to bridge the gaps between those companies with excess crude oil products and those facing shortages. The concern arises when this fine-tuning mechanism becomes a major flywheel in the distribution of international oil, influencing, in the process, all crude oil prices.

The oil transactions register is largely the result of an initiative within the European Community. The summit leaders are to consider the feasibility of requiring that at the time of unloading crude oil cargoes, documents are presented indicating the purchase price as certified by the producing country. At the same time, the leaders wanted better information on the profitability of companies and the use of their funds.

It is not clear at this stage which agency will be empowered with the responsibility of collecting and processing all this information. The International Energy Agency would seem the obvious candidate, although there might be some difficulty with France's self-imposed exclusion from the Agency. (On the other hand, the EEC—including France — is an observer of IEA meetings.) Another idea put forward by one summit government advisor is that a special committee should be set up within the OECD. But he warned that this may take many months to achieve.

Apart from the issue of where the information should be gathered there are three basic questions worrying the industry:

Is all the work necessary?

Will the data be assessed in a meaningful manner?

Will the desire for greater transparency harm oil companies?

On the first point, companies remind Government that they have already instituted close monitoring procedures, at the national level. They form part of what Mr. Robert Yancey, President of Ashland Oil, sees as America's number-one growth industry: Government regulations. Quoting American Petroleum Institute estimates that federal regulations were now costing the U.S. over $103 bn a year, Mr. Yancey told a recent Columbia University forum that since 1974 the federal regulatory budget had more than doubled and since 1976 the number of regulations had more than tripled. These regulations were inhibiting the growth of many energy projects, he alleged.

"We have Government auditors with us all the time," a senior U.S. oil company executive said at the week end. "We shower the Government with documents—so much that even with its vast staff the Department of Energy seems unable to distil them into conclusions. They come back to us to ask us for the bottom line."

Queing for petrol in Las Vegas

Resistance

The U.S., like a number of other countries within the OECD, already monitors the movement of oil into the country, the price at which the cargoes are bought by importing countries, and the price at which they are delivered to U.S. refinery subsidiaries. Under the transfer pricing rule of the Department of Energy's Economic Regulatory Administration and other regulations, the U.S. Government already monitors more than 97 per cent of the crude oil transactions and a sizeable proportion of product deals. It is likely that soon the monitoring mechanism will be made even more comprehensive.

At the international level, the Standing Committee on Oil Marketing of the International Energy Agency has been looking at the way oil is marketed, the type of transaction involved and the costs of various deals. Here, however, staff have met with a good deal of resistance from oil companies worried about anti-trust implications and the dissemination of proprietary information.

The president of an independent oil corporation was worried that the summit premiers were seeking an "open book" of oil transactions—that could affect the competitiveness of companies. He feared that the information could also have political implications. An oil-producing state might interrupt supplies to a company if it could be demonstrated that the company had also traded with an "enemy." The Register of Oil Transactions, he said, "could be used as a tool of revenge."

It may be, then, that instead of establishing a new international body totally reliant on the massive flow of raw oil business data—the recipe for a "bureaucratic nightmare" according to a number of industry spokesmen at the weekend—the main oil importing nations will decide to co-ordinate their national monitoring systems. In this way, information would be aggregated at the national level before being forwarded to the international overseers.

Whatever system is chosen, it is clear that the oil industry is being shoved into a new era of closer international scrutiny, more transparency and perhaps less freedom of operations. If this provides the major energy-consuming countries with the information needed to smooth the path towards a greater understanding with OPEC and an improvement in energy production/consumption balances, all well and good. But it will be counter-productive if the restrictions inhibit the free movement of oil and frustrate the efforts of energy companies, to expand and reshape their international operations.

Letters to the Editor

Welcome for the Budget

From the President, Confederation of British Industry

Sir,—I have read with interest Mr. John Baker White's letter (June 26) in which he complains that industry is "moaning" about the Budget. Nothing could be further from the truth. Since it was announced, I have travelled the country extensively, met scores of businessmen from companies large and small, and discussed the Budget with them in some detail. I can assure you that they have welcomed the broad direction of Sir Geoffrey Howe's measures most warmly. They see it as a long overdue and badly needed stimulus for trade and industry.

Indeed, your readers should know that last week about 300 top executives attending the monthly meeting of the CBI Council unanimously passed the following resolution:

"This Council fully supports the strategy and the direction of the Budget and recognises that its success will hinge to a large extent on the ability of managers and employers throughout business to respond to the challenge and the incentives it provides. The CBI Council therefore calls on all CBI member firms to do everything in their power through the efficient and competitive management of their enterprises to ensure that the policies, which the CBI has long advocated and which are now being pursued by the Government lead to higher productivity, higher living standards, more jobs and a more successful economy, in the interests of the British people as a whole."

As far as the attitude of businessmen is concerned, I think this resolution speaks for itself.

(Sir) John Greenborough,
21, Tothill Street, SW1.

Grasping the chance

From Mr. J. L. C. Scarlett

Sir,—Mr. Baker White did not range widely enough in his letter on June 26. Moaning is not confined to the boardroom. It must be incredibly frustrating for Mrs. Thatcher, having given the country a chance to reverse the stultifying trends of recent years, to see us all refuse to grasp that chance with energy, optimism and a determination to show what we really can do if we try. I hope that when she gets back from Tokyo she will appear on television, set out the position of the country when she took over, outline the difficulties created by the world situation, and then tell us to get off our bottoms and get on with it.

One other thing: if the combination of government controls and the welfare state has sapped our will to take responsibility for our own lives and livelihood, the concept of "social hours" seems to be doing almost as much damage. Despite high unemployment, British Rail and the Post Office say they cannot fill their vacancies because of the hours their staffs have to work. Where would many of us be if doctors, nurses or midwives refused to work unsocial hours? What about the services, or the police? And would the hours be unsocial if actors, musicians, radio and television engineers, cooks and waiters, and many others adopted the same line. Are there no compensating advantages in being free at other times?

J. L. C. Scarlett,
Brambleswood, Castle Walk, Wadhurst, Sussex.

Attractions of rights issues

From Mr. J. R. Aspden

Sir,—There has recently been Press comment on the unsatisfactory performance of share prices after a company has made a rights issue. Indeed, Lex supported this argument by citing large rights issues from seven companies made during 1978.

So far as medium-sized rights issues are concerned (raising, for example, £5-20m.), the picture is rather different. Taking the six companies whose issues were made within this range during 1978, one finds that their prices have subsequently risen by an average of 14 per cent against a corresponding average increase in the All Share Index of eight per cent and no change in the FT 30 Share Index. This more encouraging performance can be attributed to the fact that the medium-sized companies are often enjoying a rapid phase of expansion and that the proceeds of a rights issue can only but accelerate this trend. A "growth" rating is therefore created anticipating above-average future achievements. The market loves anticipating, and what better than anticipating the sky as the limit.

Larger rights issues, invariably made by larger companies, do not have these attractions, however, because the companies concerned cannot (because of their size) expect to maintain a similar, proportionate rate of growth. Their share prices, I would suggest, tend more to be orientated towards predictable performance. And unfortunately all the stocks cited in recent examples of under performance have been overshadowed by the current fashion for second-line shares where lie greater opportunities for capital appreciation.

Rights issues can, therefore, be the time to buy.

J. R. Aspden.
18, Summer Avenue, East Molesey, Surrey.

Miles per gallon

From Mr. C. L. G. Martin

Sir,—I was interested to read the letter from Mr. C. J. Carter on June 26 referring to a miles-per-gallon meter he saw being tested by SAAB some 20 years ago.

Mr. Carter is absolutely right that an instrument showing mpg rates would help the driver reduce fuel consumption to a far greater extent than would reduced speed limits, and it is for this reason that this company is involved in a programme to launch a new mpg meter within the next few months.

This instrument is the culmination of many months of development work and testing by the two inventors in order to provide a digital display showing a continuous and accurate miles-per-gallon readout, as long as the engine is running, together with a "memory" that displays an average mpg reading for any chosen distance up to 10,000 miles at the touch of a button. Thus the driver is capable of altering his driving technique at any time to obtain the most economical fuel consumption. The truth is sobering when one sees the mpg figure suddenly reduce to, maybe, 6 mpg upon applying full power in a low gear, for example! In the face of such evidence, the right foot quickly becomes a lot lighter!

C. L. G. Martin,
Martin Marketing Services.
10 The Fennings, Chesham Bois, Amersham, Bucks.

Going metric

From the Chairman, GKN Distributors

Sir,—May I through your columns, fervently support the plea made (June 27) by Sir John Methven, director-general, CBI, to accelerate the progression towards total metrication.

To take the situation of the common fastener—the ubiquitous nut and bolt—the demand pattern is poised, static, halfway between the old imperial standard and the new (circa 1964) ISO metric.

The duality of stocks, to which Sir John Methven referred creates an enormous stocking and financial problem for all companies concerned with the production, distribution and use of fasteners. The length of production run per diameter has been effectively halved, thus creating a higher unit cost. Duplicate stocks of raw material, taps, dies, chasers, thread rollers and gauges have to be maintained. And these factors are quite apart from the 50,000 sizes of imperial fasteners and the 20,000 metric sizes intended as their replacements, in production and held in stock.

The indecision of a series of British Governments over this issue has created a chaotic state of waste and muddle involving stocks to an estimated value of some £100m.

My Institute and the company for which I work are constantly stressing the need to Government of resolute action. In the hint of change that is evident in Whitehall, may we hope that prompt action will be taken to bring this contentious issue to a sane conclusion. British industry sorely needs the capital that is tied up in unnecessary stocks of fasteners and related components. The correct decision could lead to the ultimate release of some £40-£50m to help cash starved manufacturers. Is not this a laudable purpose?

E. B. M. Grubb,
President, Institute of Purchasing and Supply,
Chairman, GKN Distributors,
89, The Green, Banbury, Oxon.

Planners' nightmares

From Mrs. Marion Hazzledine

Sir,—I read with horror and disbelief Arthur Smith's description of the half-mile (km?) building in Milton Keynes (June 27) which is to house some of our major retail institutions. Must the whole of Milton Keynes be dressed by C and A, furnish their homes from John Lewis, eat what Waitrose sells (we could say that the John Lewis Partnership caters for the whole man!), and read what W. H. Smith has to offer? With the use of a Halford bike everyone will be able to ride along those marvellous cycle tracks that lead seemingly nowhere or wander from Boots to Woolworths and British Home Stores comparing prices in the January sales.

When a person (I use the word advisedly instead of the more usual "man") is tired of Milton Keynes he will surely be tired of life. The artist who sculptured the cows knew a sad thing when he saw it coming. I hope he has kept the mould and that planners all over the country from Aberdeen to Crawley will be able to erect this symbol of all that is lost. Those cows will remind us of a time that was and soon will be no more, when cows ate grass in green fields while the lark and the thrush sang.

A planner's dream is the nation's nightmare.

Marion Hazzledine.
The Quarry, East End, Northleigh, Witney, Oxon.

Bicycle power

From Dr. S. L. Goodman

Sir,—If Messrs. Jamieson (June 10) and Ford (June 23) swopped their anachronistic automotives for bicycles they would not only be saving themselves and the country much petrol, they would also avoid £4 minimums on garage forecourts. Bicycles have no petrol tanks. They also keep you fit and are fun.

S. L. Goodman,
42, Tite Street, SW3.

Taxation of children

From Mr. David G. Lindsay.

Sir,—Those concerned at the relative economic decline of families with children that, predictably, followed the replacement of the Child Tax Allowances (CTA) by the Child Benefit (CB) must have been glad to learn that Mr. Frank Field MP (letters June 22) is to raise the matter on the Finance Bill.

As the taxation inequity as between those supporting children and the childless, to which Mr. Field referred, is the direct result of the withdrawal of CTAs, equity can be restored only by restoring such CTAs, either at full rate (for a 16 year old this would be about 80 per cent of the adult allowance) but as an alternative option to CB or, but at appropriately reduced levels alongside CBs.

Incidentally, I should be surprised if Mr. Field receives much help in this from the "rich". Due to the crazy structure of our tax system their children will usually be the recipients of income settled or covenanted by co-operative relatives (in addition to CBs) and so be entitled to enjoy the full adult allowances, which successive Chancellors have so conveniently raised over the years, while they have reduced CTAs. I cannot see that particular boat being rocked!

David G. Lindsay.
8, Swanston Field, Whitchurch-on-Thames, Oxon.

Today's Events

GENERAL

UK: National Union of Mineworkers conference opens, St. Helier, Jersey.

Mr. Mark Carlisle, Education Secretary, speaks at Industrial Society conference on industry and education.

President Julio Cesar Turbay-Ayala of Colombia at City of London banquet, Mansion House.

Ladbrokes apply for casino licences renewal, opposed by police and Playboy Club, Central Hall, Westminster.

Trade missions from Kenya and Ghana visit Birmingham Chamber of Trade.

Mr. Peter Walker, Agriculture Secretary, at opening of Royal Show, Stoneleigh, Warwicks (until July 5).

MPs' painting exhibition opens, House of Commons.

Canadian Red Indian chiefs' statement on constitutional rights.

Church of England general synod opens, Church House, Westminster (until July 6).

Overseas: Mr. Cyrus Vance, U.S. Secretary of State, attends Association of South-East Asian Foreign Ministers meeting in Bali, Indonesia.

Lord Carrington, Foreign Secretary, talks with Indian Government, New Delhi.

Dr. Henry Kissinger receives honorary degree, Jerusalem University.

OFFICIAL STATISTICS

Retail sales (May—final). Hire purchase and other instalment credit business (May).

PARLIAMENTARY BUSINESS

House of Commons: Northern Ireland Act 1974 (interim period extension) Order: Northern Ireland (emergency provisions) Act 1978 (continuance) Order.

House of Lords: Charging Orders Bill, second reading. Companies Bill, committee. Debate on baggage arrangements at Heathrow.

COMPANY RESULTS

Final dividends: Heywood Williams Group, Ropner Holdings. Interim dividends: Bett Brothers.

COMPANY MEETINGS

See Financial Diary on Page 18.

Norwest Holst strong and highly confident

The prospects for Norwest Holst, civil engineering and building contractor, looks good. There is a strong balance sheet, comprehensively equipped companies with excellent client relationships and well-organised personnel to meet continued growth, states Mr. S. E. Baucher, the chairman.

"I can say that I have never been more confident in the future of our group," he says in his annual statement.

Construction margins are expected to remain under pressure until the country's prosperity improves but the company looks to an increasing contribution from its property development programme.

Turnover in the year to March 31, 1979, climbed to £119.7m (£88.2m) and taxable profit was £5.45m (£5.17m). As reported May 31, the net dividend is raised to 5.043p (4.5845p).

At year-end cash and short-term and other deposits were down from £4.74m to £2.71m but bank overdrafts were hardly changed at £1.29m (£1.28m).

Mr. Baucher says the Department of Trade investigation, started in 1976, into the company continues but nothing has so far come to the directors knowledge that would cause them to change their view that there was no justification for the inquiry.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interim—Bett Brothers.
Finals—Heywood Williams, Ropner Holdings.

FUTURE DATES

Interims—	
Eucalyptus Pulp Mills	July 6
Glass Glover	July 17
Ladies Pride	July 24
Finals—	
Brotherhood (Peter)	July 17
Burtonwood Brewery	July 5
Greene King	July 6
Russell (Alexander)	Aug. 1
Tex Abrasives	July 5

Hambros hopeful of improvement

THE ever-increasing price of oil must make one hesitant about the prospects for the future growth of world trade, says Mr. Jocelyn Olaf Hambro, the chairman of Hambros. However, he is confident all sections of trade and industry will answer the Government's "clarion call" and this makes the directors hopeful of continuing improvement in their own business.

As reported June 19 attributable profits for the year ended March 31, 1979, came out ahead at £7.12m against £4.99m previously. The final dividend on the £10 shares (£2.50 paid) is 67.24p lifting the total from 96.0925p to 109.24p.

Acceptances, on the banking side, reached a record £274m, and the value of assets leased, either for the group's own account or under management for other companies, rose to more than £200m.

Hambro Life Assurance continued to progress throughout 1978, the chairman says, and new business in the first quarter of 1979 is running substantially ahead of the corresponding period last year.

Of its overseas interests, the group's Channel Islands banks continued their steady growth. And since the year-end, capital invested in Hambro America has been increased.

Brittains reconstruction plan delayed

It is not yet possible to put forward to creditors and shareholders of Brittains detailed reconstruction proposals according to a statement issued by Hambros Bank.

Meanwhile the directors of Brittains consider that it is "not appropriate" that interest should be paid on the loan capital which it is intended should be converted into share capital in view of the group's arrangements with Barclays Bank, its bankers. Oxford University Press and Equity Capital for Industry have agreed to defer interest on their loans while Phoenix Assurance Company, as trustee of the unsecured loan stock, is not at present calling for repayment despite Brittains' intention not to make the June interest payment.

Hill Samuel's new unit trust

A new unit trust specialising in stock market anomalies is being launched by the Hill Samuel group today.

The new fund, Hill Samuel Situations Trust, will invest principally in the UK, but will also go abroad when market conditions are considered right.

The aim is capital growth. The trust will take larger risks than other trusts in the group and will seek out particularly recovery stocks, bid situations, new issues and small companies.

Minimum initial investment is £500 in units of 25p.

M. James up and reshaping

INCLUDING £139,000 from the menswear retailing business George Doland, acquired in 1977, Maurice James Industries raised taxable profit for 1978 from £379,000 to £409,000.

As known the Doland company was sold to John Cheatle of Leicester in January this year for £1.24m cash, and Cheatle assumed responsibility for Doland's overdrafts of some £0.75m.

The Maurice James Board now says that it is considering reorganising the group structure. Therefore it is not proposing a final dividend—which in normal circumstances would have been 0.5p net—pending clarification of the position.

So far in the current year the group's accounts show an advance on the corresponding period of 1978 and the directors anticipate that this trend will be maintained for the rest of the 12 months.

With £4.28m from Doland, group sales were more than doubled to £11.04m from £5.23m.

With tax taking £200,000 (£27,000) earnings per 20p share are stated lower at 1.5p (1.9p), but with deferred tax treated on the same basis as the previous year they show a marginal increase to 1.5p (1.4p).

Norcros expects healthy advance

WHILE IT is too early to give any reasonable indication of the impact of the recent acquisitions on the performance of Norcros, Mr. John V. Sheffield, the chairman, tells members a healthy advance in sales and profits is expected in the current year.

The group acquired H. and R. Johnson-Richards Tiles and Anglian Building Products during the year.

Mr. Sheffield says "the acquisition of Johnson-Richards Tiles brings substantial benefits to Norcros, spanning as it does our interest in the construction and consumer industries."

As reported on June 25 profits before tax for the year ended March 31, 1979, increased from £14.5m to £17.17m on sales of £198.8m (£179.7m). The dividend is stepped up to 4.93p (4.42p) net per share.

The chairman says that results of Johnson-Richards were not included in the year's figures as they would have "unnecessarily delayed the publication of the accounts and would have distorted the report on the activities of Norcros for 1978/79."

But, the directors have included a pro-forma profit and loss account consolidating Johnson-Richards results: Total sales are £274.9m (£250.1m) and taxable profits are shown as £21.75m (£19m).

Earnings are shown as 12.22p (14.16p) compared with a true 13.99p (14.7p) per share.

Charter Trust advances to £0.56m

Net revenue of Charter Trust and Agency advanced from £493,039 to £564,235 in the half-year to May 31, 1979. Earnings per 25p stock unit rose from 1.19p to 1.36p, and net asset value from 76.4p to 82.4p.

For the whole of last year the company turned in net revenue of £1.04m.

The interim dividend is raised from 0.75p net to 0.825p.

Gross revenue for the half-year was £1.07m (£966,219). Expenses were reduced from £163,760 to £158,238 and tax rose from £309,370 to £348,159. Earnings for ordinary stock increased from £477,689 to £548,835.

The figures for the 1979 and 1978 half-years take account of the conversion of £162,167 and £1,088,890 4½ per cent convertible unsecured loan stock 1990-95 on June 1 this year and last year respectively.

REPORTS TO MEETINGS

Charterhouse may stay on £11m

PROSPECTS at Charterhouse Group, the investment and banking concern, remained mixed, Mr. Nigel Mobbs, chairman, told shareholders at the annual meeting.

He anticipated that pre-tax profits would be very much the same as the £11.36m for last year.

Newage Engineers has been particularly affected by a reduction in export orders, and other activities were likely to be affected by the recession in world trade.

However, other areas were showing useful improvement over last year; oil production (from the Thistle Field) was still below forecast due to technical delays but the increased prices were more than compensation for lower volume.

Chairmen's remarks at other annual general meetings were as follows: Abel Morrall—Mr. S. V. Weber said that "in spite of a fire in January which gave the group a disastrous start to the current year, knitting pin output was getting close to the rate of production of the same time last year, with the rate of sales not far behind.

He added that it would be unreasonable to attempt to forecast results for 1979, "but we are determined to emerge from the serious set-back a stronger and more effective organisation."

Global Natural Resources—Mr. Frank Beatty, the president, said that oil and gas sales in the first quarter of 1979 were up by 40 per cent at U.S.$2.7m ($1.9m) and that net income amounted to $238,000 compared with $730,000 in the corresponding quarter of 1978.

However, the latter figure included income from a legal settlement and the equivalent ordinary income for the period amounted to $133,000, he added.

On the basis of the results, Mr. Beatty said that the company was on target for 1979 and both sales and net profits for the year were, "expected to equal or exceed those of 1978."

Lesney Products and Co.—Mr. P. M. Tapscott said that the value of sales showed a useful increase for the first 16 weeks of the current year even allowing for the subsequent acquisitions, but this increase had not been reflected in net profits. "Undoubtedly the group has the capability and the products for a much better current year," he stated.

Sellucourt—Mr. L. L. Leighton said that shareholders could expect a gross dividend of 2.5p for the current year compared with 2.03p last year.

And with sales for the first quarter well ahead of the corresponding period he reaffirmed that the group would achieve record results for the current year.

Aberdeen Construction Group—Mr. William Tinch said that although the interim results were likely to be disappointing, he was not despondent about the future. All work loads were at record levels, pressures on profit margins had eased slightly, and all resources were being fully employed.

Barrewells Group—Mr. F. S. Huggins told shareholders that profits were ahead for the first quarter of the current year and, helped by the increased business from the group's Ford companies, the first half would show an improvement over the previous year.

FT Share Information

The following securities have been added to the Share Information Service appearing in the Financial Times:

BHF-BANK (Section: Overseas—Germany).
Baker (John) (Industrials)
Goodkind (W.) and Sons (Industrials)
Rock Darham (Industrials)
Security Pacific Corporation (Banks)
Super Valu Stores (Overseas—New York)

Public Works Loan Board rates

Effective from June 23

Years	Quota loans repaid by EIP†	At‡	at maturity§	Non-quota loans A* repaid by EIP†	At‡	at maturity§
Up to 5	12⅞	13⅛	12⅞	13⅛	13⅜	13⅛
Over 5, up to 10	12⅞	12⅞	13	13⅛	13⅜	13⅛
Over 10, up to 15	13	13	13⅛	13⅛	13⅛	13⅜
Over 15, up to 25	13⅛	13⅛	13⅛	13⅜	13⅜	13⅜
Over 25	13⅛	13⅛	13⅛	13⅜	13⅜	13⅜

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

BIDS AND DEALS

BICC paying $1.3m for U.S. cables unit

BICC has acquired the Mineral Insulated Cable division of GK Technologies (formerly General Cable Corporation) for $1.3m in cash.

BICC has formed a new company in the U.S. known as Mineral Insulated Products Inc. which is taking over and will operate the newly acquired business in New Jersey.

It is BICC's intention to improve the manufacturing facilities and to expand its activities into broader product and market areas.

Commenting on the agreement, Mr. H. L. Jeffries, managing director of BICC International said: "Because of our long experience in the field of mineral insulated cables, we are confident that we can build on this solid base and use it as a springboard for expansion of sales of mineral insulated cables and associated products in the American market."

PENTOS REFUSES

Pentos, publishing, garden and leisure, etc., group, which now has an eight per cent stake in Jenks and Cattell, says it will not accept the 81p per share offer, for Jenks, by Armstrong Equipment.

MORRIS & BLAKEY

A. G. Stanley, now has acceptances in respect of 1,447,525 ordinary and 810,813 "A" ordinary shares of Morris and Blakey Wallpapers.

These acceptances, together with previous holdings, represent 95.58 per cent and 77.20 per cent of the respective capitals.

SHARE STAKES

Glendevon Investment Trust—Merchant Navy Officers Pension Fund acquired 50,000 ordinary on June 11 and 50,600 ordinary on June 14, making total held 705,000 ordinary (7.11 per cent).

Whitbread—A trust in which S. C. Whitbread, director, has a beneficial interest has sold 68,500 "A" ordinary shares.

F. and C. Eurotrust—Common Market Trust has acquired 397,500 ordinary shares (5.3 per cent).

Tribune Investment Trust—Viscount Ednamnow holds 2,135,820 ordinary.

VICKERS/QUAY DYNAMICS DEAL

Vickers, the engineering and office equipment group, has acquired the products, design engineering and sales operations of Quay Dynamics, the rolling mill and metal forming specialists.

Under the deal, worth £20,000 Vickers has purchased the company's trading name, its patents, designs, drawings and goodwill. It has also acquired certain assets including a number of current contracts.

New money totals £154m in June

Statistics compiled by Midland Bank show that the amount of "new money" raised by the issue of marketable securities in the UK in June was about £154m, rather less than in May, but somewhat above the figures for June 1978.

In the first six months of this year about £646m was raised as against £426½m in the same period of 1978. More than 93 per cent of the total raised so far this year has been by companies.

In June 15 companies raised over £150m, the bulk of which was accounted for by Grand Metropolitan (£80.6m) and MEPC (£37.6m). Apart from an offer for sale by Portsmouth Water Company of 8 per cent redeemable preference stock 1984 (£5.1m) and a placing of 10.75 per cent first cumulative preference shares by Brown and Jackson (£1.5m), all company issues were by way of rights.

The only issues by public bodies were in the form of local authority bonds totalling £3.5m. This is the lowest monthly figure for public bodies this year.

INTNL. COMPANIES and FINANCE

Rising stock levels force further Polaroid layoffs

BY STEWART FLEMING IN NEW YORK

POLAROID's problems with rising stocks of unsold instant cameras appear to be intensifying. The company, which last month disclosed that it was laying off 800 out of the 4,200 workers at its main production plant in Norwood, Massachusetts, has announced that it is to cut the work force at the facility by a further 890 employees.

Polaroid has a reputation for seeking to avoid dismissing employees, particularly production workers. Although there were some reductions in office staff in the last recession, in 1974, the latest cuts are the worst since the 1950s.

The company has made no bones about the problem it is facing. Its latest announcement refers to "excessive inventory" as being responsible for the economies it is making. Last month it was widely assumed that the company's difficulties were not the result of any significant loss of market share to its chief rival, Kodak, but rather of a weakening in demand for instant cameras in general, partly as a result of sinking demand in the U.S.

Aggravated by the petrol shortages which have made it harder for people to get to shopping centres, particularly in some city suburbs, it is widely expected that the next retail sales data will show a further weakening in consumer demand—and Polaroid could be responding to this.

Nippon Electric reviews market

BY MAX WILKINSON

THE NIPPON Electric Company is apparently preparing a strategy for a major push into the European semiconductor market.

One reason for the company's growing interest in Europe is the stiff opposition which the Japanese have encountered in their efforts to penetrate the U.S. microelectronics component market.

Despite considerable success with a few products, notably high density computer memory chips (particularly the 16,000-bit Random Access Memory), the Japanese have not been able to gain more than a small percentage of the total market.

In Europe, NEC estimates that it has only captured $25m of the total semiconductor market estimated to be worth $1.5bn in 1977-78.

NEC is at present carrying out a financial analysis of the European market, with the aim of deciding when and where it should increase its investment.

It operates a semi-conductor fabrication plant in Ireland at present, but this would not be large enough by itself to increase NEC's market share by the substantial amount which the company's plans now seem to envisage.

Syndicate faces bill on bond

By Nicholas Colchester

THE UNDERWRITING syndicate for a $99.9m convertible bond for Ciba-Geigy, issued in February, will this week be receiving a bill for $300,000 instead of an underwriting fee.

The 75 participating banks have been written a letter by the lead manager, UBS (Securities), explaining that they must pay their share of substantial costs incurred in supporting the secondary market price for the securities prior to the issue closing.

The managers of the issue, the investment banking arms of the big three Swiss banks, had to buy about 25 per cent of the issue offered through the secondary market "presumably by underwriters who had applied for bonds without having access to genuine investors," according to the letter.

Some of these bonds had to be resold later at a loss, though it is also clear that the big Swiss banks ended up by placing well over half of the issue, having subscribed for 45 per cent in the first place.

MEDIUM-TERM FINANCING

South Africa renews old ties

BY JOHN EVANS

SOUTH AFRICA appears to be restoring some old overseas banking relationships, reversing the pattern of the past few years, in which many western banks have found links with the Republic politically sensitive.

National Westminster Bank is understood recently to have extended a Eurocurrency loan to South Africa. The transaction was hinted at by the South African Finance Minister, Mr. Owen Horwood, late last week, when he said a loan had been arranged with a UK banking consortium.

No details of the loan were available, and National Westminster has refused either to confirm or to deny that it has arranged the credit. But the bank says that its policy is to finance foreign trade, "irrespective of political complexion," when it was Government policy to trade with a country. South Africa is a major market for British exports.

Many banks have sought to avoid direct lending to the South African Government, on the basis that this represented support for apartheid policies.

A recent indication of South Africa's new standing in the capital market is the current SwFr 100m private placement in Switzerland, the country's first operation of this type for at least three years.

Meanwhile, despite higher revenues due from the oil pricing agreements in Geneva, Venezuela is currently tapping the Eurocurrency markets for more than $1bn.

The Latin American oil producer is one of the "high absorbers" in OPEC, and has relied heavily on foreign financing to supplement its internal development expenditure.

The Venezuelan Government is examining offers from a variety of banks for a syndicated loan of at least $850m. Margins on the facility should range from ⅝ percentage point upwards.

In addition, the Venezuelan government utility, Instituto Nacional de Obras Sanitarias, is obtaining a $500m one-year credit with a spread of ⅝ per cent. Credit Suisse First Boston is heading the credit, which will refinance some outstanding debt as well as financing the utility's capital expenditure programme.

Meanwhile, the Kingdom of Denmark has awarded the mandate for its $500m Eurocurrency syndication to the Citicorp International Group. The 10-year credit carries a margin of ⅝ percentage points throughout its life.

CURRENCIES, MONEY and GOLD

Belgium still has EMS problem

BY COLIN MILLHAM

The Belgian National Bank moved quickly to defend the Belgian franc within the European Monetary System as it fell sharply against the D-mark last Thursday. Despite sales of up to DM 40m by the central bank, the D-mark rose to BFr 16.0775 at the close, above its highest permitted level of BFr 16.0740.

At the same time the authorities raised the Lombard rate to 11 per cent from 9 per cent and reintroduced a two-tier system in its lending to commercial banks. Under this a bank may discount one-third of its bills at an "A" quota rate of 9 per cent, which is the same as the discount rate, and two-thirds at the "B" quota rate of 11 per cent, equal to the Lombard rate.

The previous two-tier quota system was abolished less than two months ago. The discount and Lombard rates were then unified at 7 per cent, and all bills were discounted at that rate. Until the beginning of May banks were allowed to discount three-quarters of their bills at a favourable "A" quota rate, which was then 6 per cent.

The ending of the quota system and the rise in the discount rate on May 2 was seen as a move to help the franc, which was at times below its floor against the Danish krone.

Since then the krone has fallen sharply, and on Friday was weaker than the Belgian currency. The situation has not improved for the franc, however because as the krone was falling the D-mark was gaining strength.

Successive increases in Belgian interest rates have not improved the fundamental position. Central banks are expected to take action when an EMS currency falls outside its permitted divergence limit against its European Currency Unit central rate. This has happened to the Belgian franc, and although at times last week the currency was within its alarm bell limit of 75 per cent divergence from its ECU central rate, last Thursday's figure was a worrying 86 per cent.

Matters improved on Friday, as the higher interest rates took effect, but it remains to be seen whether this will make a lasting impression.

	June 29	June 28
Gold Bullion (fine ounce)		
Close	$279½-280¼ (£128.2-128.5)	$277-277¼ (£127.70-128)
Opening	$276-276¾ (£128-128.5)	$281½-282½ (£128.6-128.95)
Morning fixing	$276.45 (£127.467)	$281.30 (£129.482)
Afternoon fixing	$277.50 (£127.959)	$275.90 (£127.519)
Gold Coins, domestically		
Krugerrand	$287¾-289¾ (£132-133)	$284¼-286¼ (£131-132)
New Sovereigns	$72-74 (£33-34)	$71½-73½ (£33-34)
Old Sovereigns	$87¾-89¾ (£40¼-41¼)	$87½-89½ (£40¼-41¼)
Gold Coins, internationally		
Krugerrand	$287¾-289¾ (£132-133)	$284¼-286¼ (£131-132)
New Sovereigns	$72-74 (£33-34)	$71½-73½ (£33-34)
Old Sovereigns	$87¾-89¾ (£40¼-41¼)	$87½-89½ (£40¼-41¼)
$20 Eagles	$396-401	$393-398
$10 Eagles	$221-226	$220-225
$5 Eagles	$158-163	$157-162

CURRENCY RATES

June 29	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	14	0.595418	0.629805
U.S. $	9½	1.29110	1.36447
Canadian $	11¼	1.50775	1.59274
Austria Sch.	3¾	17.5364	18.5295
Belgian F.	9	38.2359	40.4155
Danish K.	8	6.85574	7.24583
D mark	4	2.38621	2.52222
Guilder	7	2.62093	2.77055
French Fr.	9½	5.53236	5.84605
Lira	10½	1075.15	1136.36
Yen	4¼	280.169	296.772
Nrwgn. K.	7	6.58203	6.96485
Spanish Pes.	8	85.2229	90.0690
Swedish Kr.	6½	5.52552	5.83788
Swiss Fr.	1	2.14736	2.26911

OTHER MARKETS

June 29	£	$		£ Note Rates
Argentina Peso	2859-2869	1302-1312	Austria	29-30
Australia Dollar	1.9340-1.9380	0.8870-0.8890	Belgium	66.80-67.80
Brazil Cruzeiro	55.54-56.54	25.45-25.95	Denmark	11.44-11.64
Finland Markka	8.45-8.48	3.9030-3.9050	France	9.20-9.30
Greek Drachma	78.781-80.677	36.15-37.00	Germany	3.92-4.02½
Hong Kong Dollar	11.0480-11.0610	5.0960-5.1000	Italy	1,765-1,805
Iran Rial	156.13-162.64	72-75	Japan	465-475
Kuwait Dinar (KD)	0.593-0.603	0.2765-0.2767	Netherlands	4.34-4.44
Luxembourg Frc.	64.30-64.40	29.51-29.55	Norway	11.00-11.10
Malaysia Dollar	4.7175-4.7205	2.1735-2.1765	Portugal	102-106
New Zealand Dlr.	2.1435-2.1495	0.9830-0.9860	Spain	141-145
Saudi Arab. Riyal	7.26-7.36	3.3800-3.3820	Switzerland	3.60-3.80
Singapore Dollar	4.7100-4.7205	2.1745-2.1755	United States	2.16½-2.17½
Sth. African Rand	1.82¾-1.83¾	0.8385-0.8430	Yugoslavia	40-43

Rate given for Argentina is free rate.

THE DOLLAR SPOT AND FORWARD

June 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	2.1635-2.1820	2.1795-2.1805	0.72-0.62c pm	3.69	1.92-1.82 pm	3.43
Ireland†	2.0390-2.0460	2.0400-2.0460	1.45-1.25c pm	7.93	3.75-3.55 pm	7.15
Canada†	85.55-85.65	85.58-85.61	0.02c pm-par	0.14	0.12-0.09 pm	0.49
Nethlnd.	2.0320-2.0420	2.0330-2.0350	0.55-0.45c pm	2.95	1.18-1.08 pm	2.22
Belgium	29.50-29.66	29.54-29.56	1c pm-2 dis	−0.20	par-4 dis	−0.27
Denmark	5.2925-5.3165	5.2925-5.2950	1.25-1.75ore dis	−3.40	4.35-4.85dis	−3.47
W. Ger.	1.8380-1.8500	1.8390-1.8405	0.85-0.75pf pm	5.22	2.02-1.92 pm	4.28
Portugal	48.90-49.15	48.90-49.00	35-45c dis	−9.80	90-130 dis	−8.99
Spain	66.00-66.10	66.03-66.08	7-17c dis	−2.18	30-40 dis	−2.12
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK, Ireland and Canada are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

THE POUND SPOT AND FORWARD

June 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	2.1635-2.1820	2.1795-2.1805	0.72-0.62c pm	3.69	1.92-1.82 pm	3.43
Canada	2.5260-2.5450	[illegible]	0.82-0.72c pm	3.63	1.96-1.85 pm	[illegible]
Nethlnd.	4.40-4.43	4.41½-4.42½	2¼-1¼c pm	6.11	6¾-5¾ pm	5.66
Belgium	64.05-64.55	64.30-64.40	22-12c pm	3.17	57-47 pm	[illegible]
Denmark	11.49-11.55	11.53½-11.54½	par-2ore dis	−1.04	1 pm-1 dis	par
Ireland	1.0600-1.0630	[illegible]	[illegible]	−3.39	82-92 dis	3.28
W. Ger.	3.99-4.03	4.00¾-4.01¾	3¼-2¼pf pm	8.61	8-7 pm	7.49
Portugal	105.50-106.75	106.25-106.75	30-90c dis	−6.76	100-200 dis	−5.63
Spain	143.40-144.00	143.85-143.95	50c pm-par	2.08	75-25 pm	1.39
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 67.35-67.45c pm. Six-month forward dollar 3.12-3.02c pm; 12-month 5.10-4.95c pm.

EXCHANGE CROSS RATES

June 29	Pound Sterling	U.S. Dollar	Deutschem'k	Japan'se Yen	French Franc	Swiss Franc	Dutch Guild'r	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	2.180	4.008	474.5	9.300	3.610	4.425	1815.	2.544	64.53
U.S. Dollar	0.459	1.	1.838	217.7	4.266	1.656	2.028	831.4	1.167	29.52
Deutschemark	0.250	0.544	1.	118.4	2.321	0.901	1.103	452.3	0.635	16.06
Japanese Yen 1,000	2.107	4.594	8.446	1000.	19.60	7.608	9.315	3820.	5.361	136.6
French Franc 10	1.075	2.344	4.309	510.2	10.	3.882	4.753	1949.	2.735	69.71
Swiss Franc	0.277	0.604	1.110	131.4	2.576	1.	1.224	502.1	0.705	17.93
Dutch Guilder	0.226	0.493	0.907	107.4	2.104	0.817	1.	410.1	0.576	14.56
Italian Lira 1,000	0.552	1.203	2.211	261.8	5.131	1.992	2.439	1000.	1.404	35.50
Canadian Dollar	0.393	0.857	1.575	186.5	3.656	1.419	1.737	712.5	1.	25.29
Belgian Franc 100	1.554	3.388	6.228	737.4	14.45	5.610	6.869	2817.	3.953	100.

LONDON MONEY RATES

June 29 1979	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount market deposit	Treasury Bills	Eligible Bank Bills	Fine Trade Bills
Overnight	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days or	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nine months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Local authority and finance houses seven days' notice, others seven days' fixed. [illegible]

MONEY RATES

NEW YORK

Prime Rate	[illegible]
Fed Funds	[illegible]
Treasury Bills (13-week)	[illegible]
Treasury Bills (26-week)	[illegible]

GERMANY

Discount Rate	4
Overnight Rate	5.725
One month	[illegible]
Six months	6.85

FRANCE

Discount Rate	9.5
Overnight Rate	9.375
One month	[illegible]
Three months	[illegible]
Six months	[illegible]

JAPAN

Discount Rate	4.25
Call (Unconditional)	5.50
Bills Discount (three-mth.)	6

PENDING DIVS.

For the convenience of readers the dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements, except where the forthcoming Board meetings (indicated thus*) have been officially published. It should be emphasised that the dividends to be declared will not necessarily be at the amounts or rates per cent shown in the column headed "Announcement last year."

	Date	Announcement last year
Acrow	Aug. 2	Final 1.1564
*Airfix Inds.	July 12	Final 1.993
Alexanders Discount	July 3	Int. 4.5
Allied Colloids	July 12	Final 1.117
Associated Cmunictns.	June 22	Final 4.2139
Barclays Bnk.	July 27	Int. 6.05
Bath and Portland	July 4	Int. 1.6
Birmid Qualcast	July 19	Int. 1.5
British Dredging	July 10	Final nil
*Butterfield Harvey	July 21	Final 1.24
*Charter Consd.	July 4	Final 5.2764
Davy Corp.	July 25	Final 7.425
Distillers	July 13	Final 4.5842
Dixons Photogrphc.	Aug. 2	Final 1.51
Dowty	July 19	Final 2.255
Fitch Lovell	July 27	Final 2.812
*Fodens	July 19	Final 3.35
General Electric	July 6	Final 2.045
Gestetner	July 14	Int. 2.125
Great Univ. Strs.	July 20	Final 4.64
Haslemere Ests.	July 20	Final 3.229
Hogg Robinson	July 18	Final 2.59
Hoover	Aug. 3	Int. 5.61
*Howden	July 12	Final 3.1543
*Imp. Contntl. Gas	July 3	Sec. int. 5.806
*Imperial Grp.	July 12	Int. 2.25
Inchcape	July 27	Final 9.0
Initial Services	July 21	Final 6.059
James (John)	Aug. 3	Final 1.591
LRC Intnl.	July 19	Final 1.53
*Lloyds Bank	July 20	Int. 4.635
*Magnet and Southerns	July 17	Final 5.432
Meyer (Montague L.)	July 17	Final 2.973
Midland Bnk.	July 28	Int. 6.5
*NatWest	July 24	Int. 5.682
*Rank Org.	July 16	Int. 4.0
*Raybeck	July 12	Final 2.3512
Rothmans Intl.	July 14	Final 1.327
*SGB	July 3	Int. 2.75
Staflex Intl.	July 28	Final nil
*Stonhouse	Aug. 23	Int. 1.825
Stock Conversion	July 26	Final 1.0217
Taylor Woodrow	July 25	Int. 2.01
Thorn Elec.	July 7	Final 9.0
Town & City Props.	July 14	Final 0.01
*Unigate	July 18	Final 2.106
*Union Discount	July 18	Int. 5.375
Vantona	Aug. 3	Int. 1.9955
Vosper	July 28	Int. 2.5
Ward and Goldstone	July 21	Final 3.672

* Board meetings intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made from reserves. ¶ Forecast.

BASE LENDING RATES

A.B.N. Bank	14 %	■ Hambros Bank	14 %
Allied Irish Banks Ltd.	14 %	■ Hill Samuel	§14 %
Amro Bank	14 %	C. Hoare & Co.	†14 %
American Express Bk.	14 %	Julian S. Hodge	15 %
A P Bank Ltd.	14 %	Hongkong & Shanghai	14 %
Henry Ansbacher	14 %	Industrial Bk. of Scot.	14½%
Associates Cap. Corp.	14 %	Keyser Ullmann	14 %
Banco de Bilbao	14 %	Knowsley & Co. Ltd.	15½%
Bank of Credit & Cmce.	14 %	Lloyds Bank	14 %
Bank of Cyprus	14 %	London Mercantile	14 %
Bank of N.S.W.	14 %	Edward Manson & Co.	15 %
Banque Belge Ltd.	14 %	Midland Bank	14 %
Banque du Rhone et de la Tamise S.A.	14½%	■ Samuel Montagu	14 %
Barclays Bank	14 %	■ Morgan Grenfell	14 %
Bremar Holdings Ltd.	15 %	National Westminster	14 %
Brit. Bank of Mid. East	14 %	Norwich General Trust	14 %
■ Brown Shipley	14 %	P. S. Refson & Co.	14 %
Canada Perm't Trust	14 %	Rossminster	14 %
Cayzer Ltd.	14 %	Ryl. Bk. Canada (Ldn.)	14 %
Cedar Holdings	14 %	Schlesinger Limited	14 %
■ Charterhouse Japhet	14 %	E. S. Schwab	15 %
Choulartons	14 %	Security Trust Co. Ltd.	15 %
C. E. Coates	14 %	Shenley Trust	16 %
Consolidated Credits	14 %	Standard Chartered	14 %
Co-operative Bank	*14 %	Trade Dev. Bank	14 %
Corinthian Secs.	14 %	Trustee Savings Bank	14 %
Credit Lyonnais	14 %	Twentieth Century Bk.	15 %
The Cyprus Popular Bk.	14 %	United Bank of Kuwait	14 %
Duncan Lawrie	14 %	Whiteaway Laidlaw	14½%
Eagil Trust	14 %	Williams & Glyn's	14 %
English Transcont.	14 %	Yorkshire Bank	14 %
First Nat. Fin. Corp.	15½%		
First Nat. Secs. Ltd.	15½%		
■ Antony Gibbs	14 %		
Greyhound Guaranty	14 %		
Grindlays Bank	‡14 %		
■ Guinness Mahon	14 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 11½%, 1-month deposits 11¾%.
† 7-day deposits on sums of £10,000 and under 11½%, up to £25,000 12% and over £25,000 12¼%.
‡ Call deposits over £1,000 11½%.
§ Demand deposits 11½%.

RECENT ISSUES

EQUITIES

Issue Price p:	Amount Paid Up	Latest Renunc. Date	1979 High	1979 Low	Stock	Closing Price p:	+ or −	Div. F. or Amount	Times Covered	Gross Yield	P.E. Ratio
60	F.P.	11/7	91	76	B & Q (Retail) 5p	81	......	2.46	2.8	3.0	17.4
§66	F.P.	—	75	66	††Delight 10p.	73	......	bd5.0	2.2	6.9	7.2
‡‡	F.P.	22/6	53	51	Fulcrum Inv. Income	51½	......	4.0	—	11.6	—
‡‡	F.P.	22/6	4½	3	Do. Capital 2½p	4	+¼	—	—	—	—
160	F.P.	—	186	178	StandardTel.&Cables	181	+2	—	—	—	—

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1979 High	1979 Low	Stock	Closing Price £	+ or −
100	F.P.	27/7	110½	107½	Kwik-Fit (Tyres) 8% Cnv. Ln. 1979/85	110	......
100	F.P.	26/6	102	90	Marsh'll's Univ'rs'l 7½% Cnv.Cum.Red.Prf	90	—1
100	F.P.	30/8	102	100	Portsmouth Water 8% Red. Prf. 1984	101	......
98	F.P.	23/8	98¼	95½	York Water 12% Deb 1986	96	......

"RIGHTS" OFFERS

Issue Price p:	Amount Paid up	Latest Renunc. Date		1979 High	1979 Low	Stock	Closing Price p:	+ or −
36	Nil	9/7	10/8	4pm	1pm	Causton Sir (J.)	1½pm	......
65	nil	—	—	21pm	17pm	Century Oils	21pm	+4
22½	Nil	10/7	10/8	6pm	2½pm	Combined English Stores	4pm	+1⅛
65	F.P.	8/6	6/7	51	40	Edwards (Louis C.)	40	......
100	Nil	—	—	38pm	35pm	Geevor Tin	35pm	......
126	F.P.	29/6	10/8	142	131	Grand Metropolitan	136	+3
155	Nil	—	—	45pm	27½pm	Holt Lloyd Intl	45pm	+5
110	Nil	5/7	7/9	3pm	1pm	Intl. Timber	1pm	......
154	F.P.	22/6	27/7	171	157	MEPC	171	+6
105	Nil	—	—	3pm	1pm	McCorquodale	2½pm	......
85	F.P.	—	—	121	101½	P.M.A. Holdings	120	+4
210	Nil	22/6	20/7	60pm	40pm	Peterson Tennant	40pm	......
20	F.P.	—	—	43½	29	Provincial Laundries	38	......
60	F.P.	29/6	20/7	86	81	Scotcros	84	......
265	F.P.	15/6	27/7	295	270	Simon Engineering	278	—2
150	F.P.	15/6	13/7	156	143	Smurfit (Jefferson)	150	......
455	F.P.	4/6	6/7	507	465	Standard Chartered Bank	465	—10
138	F.P.	18/6	9/7	145	131	Tilling (Thomas)	132	......
175	F.P.	23/5	4/7	254	210	Tricentrol	244	—2
93	F.P.	7/6	13/7	105¾	92	UDS	94	+1
87	Nil	—	—	15pm	7pm	W.G.I.	11pm	......
20	F.P.	19/6	13/7	25½	17½	Weeks Associates	17½	—½

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimate. g Assumed dividend and yield. u Forecast dividend; cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1979. Q Gross. T Figures assumed. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price to public. pt Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Unlisted security. ‡‡ Issued as units comprising 2 Income shares and 10 Capital shares at 125p per unit.

INSURANCE BASE RATES

† Property Growth 11½%
† Vanbrugh Guaranteed 12½%
† Address shown under Insurance and Property Bond Table.

CORAL INDEX: Close 469-474

APPOINTMENTS

Group posts at Schroders

Mr. Daniel Janssen has been appointed a director of SCHRODERS. He is chief executive of the Belgian chemical company, UCB S.A., and also a director of Société Générale de Banque S.A. and a member of the European Advisory Council of the Ford Motor Company.

Mr. H. C. Blackie, Mr. D. J. Challen, Mr. M. J. C. Ladenburg and Mr. M. R. Melville have become directors of J. HENRY SCHRODER WAGG AND CO. Mr. A. D. Loehnis, who has been on secondment as a chief adviser at the Bank of England since 1977, will be returning to that company on July 16 and will be re-appointed a director. Mr. R. H. Beevor, Lord Charles Cecil, Mr. R. Corner, the Earl of Euston, Mr. R. E. Hills, Mr. N. M. H. Jones, Mr. B. E. Marenbach, Mr. S. N. Roditi, Mr. S. C. Speller and Mr. R. E. Taylor have been made assistant directors of J. Henry Schroder Wagg.

★

Mr. Gordon Ranger has joined the Board of J. AND J. MAYBANK and will become managing director when Mr. James C. Maybank retires as chairman and chief executive at the end of October. Chairman of the company from that date will be Mr. Cyril Warmington, deputy chairman of Reed Group. Reed International is the parent concern and Mr. Ranger has been general manager of the Aylesford Conversion Section of the group since 1973.

★

BARING BROTHERS AND CO., has appointed Mr. F. A. A. Carnwath and Mr. R. M. Shaw as directors, and Mr. A. D. Denison as a manager. Mr. R. D. C. McAlpine (60) and Mr. W. J. Smith Jr., who wishes to return to the U.S., retire as directors.

★

Mr. David Knight has been appointed to the new post of group production controller of LAPORTE INDUSTRIES, based in London. He has been succeeded by Mr. P. M. Jones as *managing director, organics and pigments division*. Dr. J. V. Bramley has been made divisional research and development manager, general chemicals division, a newly-created position in the research and development department, centred on Widnes. Dr. Bramley will not take up the appointment of group research and development controller and that post will not be filled.

★

Mr. Nigel B. Plenderleith has been appointed managing director of CLARENCE AND CO (Manchester) and Mr. J. Milnes has become factory manager. Mr. R. D. A. Barclay and Mr. H. Sullivan relinquish some of their executive duties but remain joint cheirmen of Clarence and Co. (Manchester) Jane Sullivan and Jane Sullivan (Sales). Clarence and Co. (Manchester) has moved from Knutsford to Leicester Street, Northwich, Cheshire.

★

Mr. C. D. Malmaeus has been made assistant general manager, Europe, Middle East and Africa. London regional office, of TORONTO DOMINION BANK.

★

Mr. A. P. Hichens and Mr. J. D. R. Lyon have been appointed deputy managing directors of REDLAND. Mr. Hichens has been financial director of the company since 1972. Mr. Lyon was previously managing director of Redland Roof Tiles and has been on the Redland board since 1976. Both retain their existing responsibilities.

★

Mr. Maurice Dumbrell and Dr. Keith A. J. Sugars have been *appointed* directors of TIOXIDE GROUP.

★

Mr. David M. Culver, president of ALCAN ALUMINIUM, has taken over the additional position of chief executive officer of the company succeeding Mr. Nathanael V. Davis, who retires after 32 years in that post but remains chairman of the Board. Also retiring from active management at Alcan is Mr. Paul Leman, who relinquishes his position as vice-chairman but continues as a member of the Board. Mr. Culver joined the group in 1949 and has been president of Alcan Aluminium since 1977.

★

Sir Alex Jarratt, chairman and chief executive of Reed International, has been elected president of the ADVERTISING ASSOCIATION. He succeeds Lord Barnetson, chairman of United Newspapers who has been president since 1976.

★

The EDMAN GROUP has made two appointments to its executive board. They are Mr. Tony Bull, *managing director of the group's distribution division, Eros Mailing*, and Mr. Craig Nicholl, *managing director of the lotteries division, Dickinson Lottery Systems*.

★

Mr. Nicholas J. P. Sheehan has joined the partnership of KNIGHT FRANK AND RUTLEY.

★

Mr. Angelo Vittucci has been appointed a non-executive director of CHESTER BARRIE CLOTHES (Austin Reed). He is the proprietor of Angelo, tailors, of Rome.

INSURANCE

Hard year ahead for the underwriters

BY OUR INSURANCE CORRESPONDENT

THE BRITISH Insurance Association's practice of holding its AGM at the half-year means that the annual review of its members' trading for the previous calendar year can be viewed in the light of known current-year trends.

The British companies found 1978 difficult but, in retrospect, with bright spots; but 1979 clearly has little going for it.

Take UK general business: in 1978 fire and accident income of over £1.67bn produced an overall profit of £2.5m, scarcely more than underwriting break-even, while UK motor income of £1.07bn produced a loss of £22.3m. If 1978 was poor, consider what the opening bad winter months will have done for the 1979 account.

Best estimates so far put the extra cost of commercial and domestic property weather damage claims at £30m more than the 1978 figure, and of motor claims, because of bad weather, at up to £25m more. In many parts of the country winter did not relax its grip until mid-April, so the other eight months of the year will have to be phenomenally good to prevent the companies' general underwriting loss in 1979 from approaching £50m.

On the motor side, the effect of increasing inflation on repair costs and compensation awards might just be balanced by fewer accidents, the result of less motoring, owing to oil costs

But there can be no hope of reduced claims on the property side; the fire incidence in commercial and household risks is relatively static, but crime losses increase.

Of course, all property losses are subject to growing inflationary pressure—for example, last May's estimated fire losses in Great Britain were a tenth higher than those for May, 1978.

At home and abroad too many insurers are chasing too little property business. With little growth in the UK economy, competition for quality business continues as fierce as ever, with many substantial risks being written at inadequate premiums. This is fine in the short term for commercial policy holders, but the day will come when over-capacity will vanish and pricing reality return.

That day may perhaps come more quickly than some think, for *insurance is highly labour-intensive* and the burden of ever-increasing operational costs which is not contained by compensating premium growth (even growth in inflationary rather than real terms) could bring about a reappraisal, once the 1979 results begin to emerge.

That, however, seems unlikely to be true elsewhere in the world—where BIA members last year earned over £1m—whether one has regard to property, marine, aviation, or any commercial business. In the mid-1970s, the falling value of the pound enhanced the sterling equivalent *of insurers' overseas* trading, but now its rising value has the contrary effect.

Partly because of continuing overseas competition, partly because of exchange rates, the companies may not bring home in 1979 the £100m increase that they have achieved in the past two years.

Britain has around 6 per cent of the world's general trade, but British insurers—companies and Lloyd's underwriters together—*have about 10 per cent of the* world's insurance business. It must be in the long-term interests of insurers and of all British business to protect this share from local and from over-competitive opposition alike.

With the country's trading imbalance reduced by the insurance contribution of £1bn in invisibles, it ill becomes any British international or multi-national company to buy non-British insurance, except where local laws require. *If insurance* suffers the effect will be felt by the whole British economy.

TEL AVIV

Company	Prices July 1 1979	Change on the week
Banking, Insurance, and Finance		
Bank Leumi le Israel...	395	+ 13.0
IDB Bankholding	467	+ 10.0
Bank Hapoalim Br.	477	+ 10.0
Union By. of Israel Br.	423	+ 27.0
United Mizrahi Bank ...	278	+ 5.0
Hassneh Insurance Br.	328	− 10.0
General Mort. Bank Br.	339	+ 5.0
"Tefahot" Israel M. B.	382	− 18.0
Land Development		
Africa Israel Inv. IE10	1,080	− 48.0
Israel Land Devpt. Br.	215	− 27.0
Property and Building...	454	+ 10.0
Public Utility		
Israel Electric Corp. ...	220	− 11.0
Investment Companies		
Bank Leumi Invest ...	353	+ 8.0
"Clal" Israel Invest. ...	509	− 5.0
Discount Invest.	336	+ 20.0
Commercial and Industrial		
Alliance Tire & Rubber	1,245	+ 40.0
Elco Br.	282	− 10.0
Argaman Textile Br. ...	390	+ 15.0
"Ata" Textile "B" ...	158.5	− 9.5
Amer. Israel Por. Mills	393	+ 13.0
Assis	560	− 3.0
Elite	409	+ 15.0
Teva Reg.	604	− 4.0
Fuel and Oil		
Delek	245	− 19.0

Source: Bank Leumi le Israel BM. Tel. Aviv.

WORLD STOCK MARKETS

Indices

NEW YORK —DOW JONES

	June 29	June 28	June 27	June 26	June 25	June 22	1979 High	1979 Low	Since Compil'n High	Since Compil'n Low
◆ Industr'ls	84[illegible]	843.04	840.52	837.66	844.25	849.10	875.72 (10/4)	807.00 (27/2)	1051.70 (11/1/73)	41.22 (2/7/32)
H'me B'nds	85.[illegible]9	85.25	85.70	85.[illegible]	85.55	85.45	85.50 (2/2)	82.92 (8/5)	—	—
Transport	242.26	242.89	241.92	239.82	240.25	241.56	245.87 (12/6)	205.78 (27/2)	279.88 (7/2/69)	12.25 (8/7/32)
Utilities	105.45	105.55	105.48	105.29	105.11	105.51	105.75 (13/6)	98.51 (15/1)	165.32 (20/4/69)	10.58 (28/4/42)
Trading vol 000's	34,848	38,340	36,780	34,948	31,432	32,530	—	—	—	—

◆ Day's high 848.12 low 837.20

	June 22	June 15	June 8	Year ago (approx)
Ind. div. yield %	5.97	6.01	6.07	5.68

STANDARD AND POORS

	June 29	June 28	June 27	June 26	June 25	June 22	1979 High	1979 Low	Since C'mpil't'n High	Since C'mpil't'n Low
‡Indust'ls	114.14	113.62	113.40	112.75	113.22	112.94	116.69 (3/1)	107.88 (27/2)	134.64 (11/1/73)	3.53 (30/6/32)
†Composite	102.91	102.80	102.27	101.66	102.09	102.64	103.54 (10/4)	96.13 (27/2)	125.85 (11/1/73)	4.40 (1/6/32)

	June 20	June 13	June 6	Year ago (approx)
Ind. div. yield %	5.30	5.24	5.28	5.07
Ind. P/E Ratio	7.91	7.98	7.92	9.11
Lor Gov. Bond Yield	8.87	8.81	8.95	8.52

N.Y.S.E. ALL COMMON

June 29	June 28	June 27	June 26	1979 High	1979 Low
58.38	58.53	58.01	57.67	58.58 (29/6)	53.88 (27/2)

Rises and Falls	June 29	June 28	June 27
Issues Traded	1,871	1,876	1,883
Rises	747	875	868
Falls	753	580	527
Unchanged	391	443	488
New Highs	—	—	—
New Lows	—	—	—

MONTREAL

	June 29	June 28	June 27	June 26	1979 High	1979 Low
Industrial	278.16	278.59	277.28	274.56	279.79 (28/6)	219.39 (2/1)
Combined	275.16	274.42	275.52	272.77	276.15 (29/6)	225.90 (2/1)
TORONTO Composite	1616.4	1614.4	1611.6	1592.3	1618.4 (29/6)	1315.3 (2/1)
JOHANNESBURG Gold	285.4	290.8	285.4	286.4	298.4 (25/6)	228.4 (17/4)
JOHANNESBURG Industrial	308.1	310.6	301.1	308.5	330.9 (23/5)	270.6 (2/1)

	June 29	Previous	1979 High	1979 Low
Australia (*)	578.52	578.55	597.68 (19/3)	545.72 (2/1)
Belgium (‖)	106.28	106.32	108.09 (8/6)	98.80 (3/1)
Denmark (**)	84.28	84.51	97.22 (10/6)	88.32 (3/1)
France (††)	85.7	86.9	88.3 (28/6)	71.5 (15/2)
Germany (‡‡)	727.90	728.50	839.6 (16/1)	719.4 (7/6)
Holland (§§)	76.9	75.5	85.9 (24/1)	71.3 (7/6)
Hong Kong (¶¶)	589.32	586.97	568.90 (5/2)	493.83 (2/1)
Italy (‖‖)	78.74	78.10	80.01 (4/6)	68.33 (2/1)
Japan (a)	445.64	449.88	462.97 (31/1)	436.22 (10/4)
Singapore (b)	378.48	376.89	404.13 (28/5)	346.34 (23.2)
Spain (d)	97.97	98.47	111.36 (8/3)	93.03 (12/1)
Sweden (e)	351.0	358.47	401.34 (6/2)	335.58 (25.9)
Switzerld (f)	311.9	306.7	329.1 (2/5)	234.3 (3/1)

Indices and base dates (all base values 100 except NYSE All Common—50; Standards and Poors—10; and Toronto 300—1,000; the last named based on 1975). † Excluding bonds. ‡ 400 Industrials. § 400 Industrials, 40 Utilities, 40 Finance and 20 Transport. ¶ Sydney All Ordinary. ‖ Belgian SE 31/12/63. ** Copenhagen SE 1/1/73. †† Paris Bourse 1961. ‡‡ Commerzbank Dec. 1953. §§ Amsterdam Industrial 1970. ¶¶ Hang Seng Bank 31/7/64. ‖‖ Banca Commerciale Italiana 1972. a Tokyo New SE 4/1/68. b Straits Times 1966. c Closed. d Madrid SE 29/12/78. e Stockholm Industrial 1/1/58. f Swiss Bank Corporation. u Unavailable.

FRIDAY'S ACTIVE STOCKS

	Stocks traded	Closing price	Change on day
Occidental Petro.	660,100	22¼	−1⅛
Amerada Hess ...	595,700	44½	+1⅞
NLT	501,600	35⅞	+2¾
Continental Oil	365,100	38½	−⅞
Sambo's	349,000	6⅞	−⅛
Caesars World...	345,800	28	+1¼
Mesa Petroleum	343,900	63⅞	−⅛
Texaco	326,500	27⅞	−⅛
W. E. Heller ...	317,500	33⅛	+4
IBM	302,300	73⅞	−⅞

WALL STREET

NEW YORK

[illegible]

CANADA

[illegible]

EUROPE

AMSTERDAM

June 29	Price Fls.	+ or −	Div. %	Yld. %
Ahold (Fl.20)	95.5	......	A22	4.6
Akzo (Fl.20)	28.7	+0.2	—	—
Alg'm Bk (Fl 100)	336	−2	A25	7.5
Amev (Fl.10)	83.2	−1.1	50	6.0
Amrob'k (Fl.20)	68.0	−0.5	25	7.2
Bijenkorf	70.0	......	26	7.9

[illegible]

BRUSSELS/LUXEMBOURG

June 29	Price Frs.	+ or −	Div. Frs. Net	Yld. %
Arbed	2,610	+25	—	—
Bekaert "B"	2,500	−10	130	5.2
C.B.R. Cement	1,100	−36	100	8.6
Cockerill	495	−7	—	—
EBES	2,175	−15	177	8.0

[illegible]

VIENNA

[illegible]

COPENHAGEN

[illegible]

GERMANY

[illegible]

MILAN

[illegible]

OSLO

[illegible]

PARIS

[illegible]

SPAIN

June 29	Per cent	
Asland	107	—
Banco Bilbao	269	− 4
Banco Central	304	—
Banco Exterior	280	− 4
B. Granada (1,000)	134	—
Banco Hispano	283	− 2

[illegible]

STOCKHOLM

[illegible]

SWITZERLAND

[illegible]

TOKYO

July 1	Prices Yen	+ or −	Div. %	Yld. %
Asahi Glass	343	......	14	2.0
Canon	535	−4	12	1.4
Casio	720	−10	25	1.7
Chinon	329	......	20	3.0
Dai Nippon Print	560	+15	18	1.6

[illegible]

Source Nikko Securities, Tokyo

BRAZIL

[illegible]

HONG KONG

[illegible]

AUSTRALIA

[illegible]

JOHANNESBURG

[illegible]

Financial Rand U.S.$[illegible]

(Discount of [illegible]%)

NOTES: Overseas prices exclude $ premium. Belgian dividends are after withholding tax. [illegible]

INTERNATIONAL BONDS

BY FRANCIS GHILÈS

Investors take leave of absence

PRIVATE AND institutional investors took leave of absence from the Eurobond markets last week as the investment community tried to decide what effect the increase in oil prices would have on currencies and interest rate movements.

A seven-month period during which the dollar was not felt to be seriously under threat has come to an end, but nobody quite agrees what will happen next, either to the dollar or to the Deutsche Mark. However six new dollar issues were announced last week. At least two were put off last Friday evening as rumours that Libya would curtail oil shipments spread through the market.

Earlier in the week dealers had tried to push prices up and so get the Eurobond market to follow the upward trend of the New York market. But their efforts were to no avail. By Friday trading volume was down to a trickle with many dealers feeling that had they tried to move prices at all, the only way these could have moved was down.

There seems to be a consensus among London and European based houses that sterling is an excellent bet in the immediate future. The feeling is that OPEC countries will be more keen than in the past to diversify, particularly in view of the interest rate levels available on sterling paper, be it gilt-edged stocks or Eurobonds.

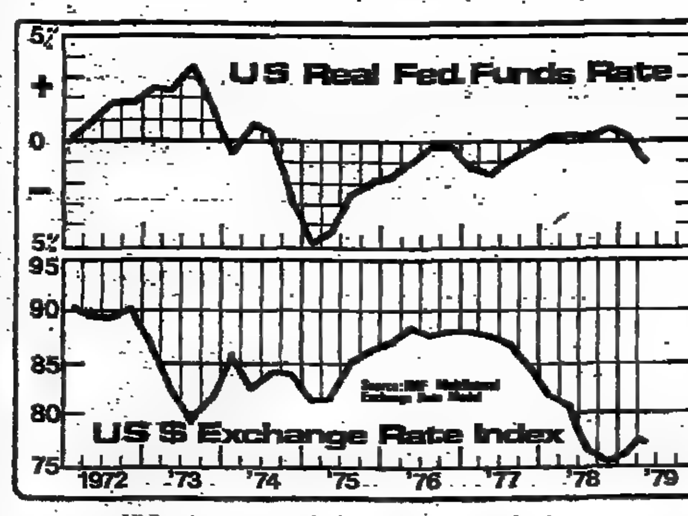
Last Friday most sterling denominated Eurobonds put on an average of ½ point. The recent FFI issue moved up to 97½-¾ from 96¾-7¼ the day before.

The ripples of currency uncertainty have not led to any large selling of dollar denominated bonds yet, but money continues to flow back into the Deutsche Mark and Swiss franc sectors where seasoned issues have posted further gains.

The DM400m issue for the World Bank was well received. Prices in the DM sector were further sustained by the small new issue calendar for DM paper agreed by the German Capital Markets Sub-Committee at its monthly meeting last week. Only two issues will be floated during the next three weeks, one of which (for Brazil) will attract German investors because of tax advantages. The German domestic bond market has also performed well with foreign buyers well to the fore.

Quite apart from the currency appreciation, DM paper yields only 150 basis points less than its dollar equivalent—as against 400 basis points just over a year ago.

Most of the dollar straight issues which started trading last



week are standing at steep discounts. The last six to start trading are quoted at average discounts of 2.14 per cent, well over the average selling group discount of 1¼ points given to institutional investors when they purchase new paper. There are exceptions such as the Lear Petroleum convertible which has been trading at a premium since it was priced ten days ago.

Not all new dollar issues are badly received. The grey market quote for the $50m Dome Petroleum changed as the week wore on. While it was being quoted at a discount of 2¾-2½ points on Thursday morning, by Friday evening this had narrowed to 2-1½ points. The indicated terms for the last two issues last week for Australian Resources Development Bank and Beneficial Corporation were felt to be reasonable by many dealers. The $100m straight issue for Beneficial Corporation includes a 9¾ per cent coupon for eight years and is fully underwritten by the managers.

The secondary market in floating rate note issues was quieter last week than the week before with prices well maintained. Even those issues the coupons of which have recently been adjusted—at a lower level because interest rates have fallen since the end of last year—are holding up well, in the face of the theory that when interest rates fall investors turn from floating rate instruments to fixed rate investments.

The FRN for the Royal Bank of Scotland was quoted at 98¾-¼ last week, as was the issue for Indosuez.

Though the first is considered by investors a better quality name, the managers had offered only a selling group discount of 1¼ points to underwriters, as opposed to the 1½ points discount offered on the Indosuez bond.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
‡GTE Finance	55	1989	8	9¾	100	Salomon	9.75
‡†IC Industries	75	1991	10	8¾‖	100	Paribas, Merrill Lynch	—
‡†Banque Ext. d'Algerie	55	1989	7½	7¼°	100	Dillon Read	7.38°
‡§LPC Int. Finance	30	1989	—	8	100	Kidder Peabody	8.0
‡†Nippon Credit Bank	50	1986	7	6½°	100	Morgan Stanley	6.61°
‡†Iberpistas	18	1986	6½	7°	100	Smith Barney, Harris Up.	7.12°
‡†Indosuez	40	1989	10	5¼°	100	Indosuez	5.32°
‡†Royal Bank of Scotland	75	1986/94	—	5¼°	100	CCF	5.32°
‡††Finland	100	1989	10	[illegible]	100	Merrill Lynch White Weld	9.86
‡Carter Hawley Hale	50	1986	7	9¾	100	Morgan Stanley	9.75
†Panama	50	1991	8.45	7°	100	Dillon Read, IBJ Int.	7.12°
‡††Hydro Quebec	200	2009	n.a.	10¼	100	First Boston Corp.	10.38
†Nacional Financiera	100	1986	7	6¼°	100	Soc. Générale, Salomon	6.35°
‡¶ECSC	150	1991	9½	10¾/9½	99½	Daiwa, S. G. Warburg	9.66
Dome Petroleum	50	1994	11.97	10	99¼	Morgan Stanley	10.07
††§Canon Inc.	80	1994	—	*	*	Goldman Sachs	*
Australian Res. Dev.	30	1984	5	9¾	99½	Swiss Bk Corp. (Luxem)	9.76
‡Beneficial Over. Fin.	100	1987	8	9¾	100	Blyth Eastman Dillon	9.75
D-MARKS							
**Inter-Amer. Dev. Bk.	50	1989	10	8	99	DG Bank	8.15
World Bank	400	1991	12	7¾	100	Deutsche Bank	7.75
SWISS FRANCS							
Argentina	80	1989	n.a.	5½	99	Swiss Bank Corp.	5.63
‡**§Ryobi	20	1984	—	4¼	100	Crédit Suisse	4.17
‡**§Sekisui Pre. Homes	70	1984	—	4¾	100	UBS	n.a.
‡**§Afics Corp.	25	1984	—	4½	100	Crédit Suisse	4.5
Nordic Bank Ltd.	45	1989	n.a.	5	100¼	Nordfinanz-Bank	4.94
City of Bergen	40	1991	n.a.	4¾	100	Crédit Suisse	4.75
‡**§Kao Soap	30	1984	—	4¾	100	Swiss Bank Corp.	4.475
‡**§Taiyo Yuden	20	1984	—	4½	100	Crédit Suisse	4.55
STERLING							
‡FFI	30	1989	8.9	12¼	99½	S. G. Warburg	12.64
LUXEMBOURG FRANCS							
‡Eurofima	500	1989	9½	8½	99¾	Kredietbank Luxem.	8.54
KUWAITI DINARS							
Indonesia	7	1986/91	—	8¾	*	KIIC	*

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ° Minimum. § Convertible. †† Registered with U.S. Securities and Exchange Commission. ‖ Optional fixed rate. ¶ $80m registered with Japanese Ministry of Finance.
Note: Yields are calculated on AIBD basis.

U.S. DOLLAR

BY NICHOLAS COLCHESTER

Footing another oil bill

MORGAN GUARANTY Trust's economic department estimates that the U.S. oil import bill for 1979 will now be $60bn compared with $42bn last year and with the figure of $54bn which the same bank was predicting only five weeks ago. This gives some indication of the impact on the U.S. trade balance of the recent OPEC decision.

If this decision is the last word on oil prices this year it will already mean that the average oil price in 1979 is 40 per cent up on that for 1978. It is on this rather frail assumption that the $60bn figure is based.

Yet despite this formidable increase Morgan Guaranty's predictions for the U.S. trade and current account deficits in 1979 have altered relatively little as a result of last week's news—an $11bn current account deficit ($16bn deficit in 1978) and a $30bn trade deficit compared with $34bn. They remain unscathed because the improvement in the U.S. trade balance on manufactured goods, agricultural products and invisibles has exceeded the bank's expectations.

In manufactured goods, for instance, the U.S. trade balance has averaged a $5bn annual rate of surplus in the first five months of this year, set against an annual rate of deficit of $10bn in the same period of last year.

In the agricultural sector firm prices for wheat and soya have led to an annual rate of surplus in the first five months of $11bn compared with $8.5bn over the equivalent part of 1978. Morgan Guaranty believes that, taken together, and coupled with an improvement on invisibles, these cumulative totals are evidence of a significant change in the non-oil trade position of the U.S. Yet it is fair to add that the recent swing in the erratic pattern of monthly trade statistics has been a swing in the wrong direction.

The key question concerns the effect of the OPEC decision on capital flows. Will this decision reinforce the recent deterioration in the attitude of international investors towards the dollar? High nominal interest rates and the prospect of a slow-down in the U.S. economy leading to reduced inflation and deficit, helped attract over $30bn of private capital into the dollar during the first half of this year. In recent weeks poor inflation figures and disappointing trade figures have made it seem as though the impending recession is arriving without the advantages which should logically accompany it. The rise in European interest rates—offering substantial real returns—has not helped the dollar either.

Here, Mr. Rimmer de Vries, Morgan Guaranty's chief economist, feels that the U.S. Government's response to the OPEC challenge is crucial. "They must really show determination to head off the probelm of energy and inflation," he says. The latter problem requires tighter money, particularly if European rates continue to rise.

The question, says Mr. de Vries, is whether Washington will use a rise in interest rates to prevent a run on the dollar or wait until a run on the dollar prompts it to put up interest rates.

This is the same question that was being asked persistently in 1978, but the reasons for asking it have shifted somewhat. The perceived problems then were a higher rate of growth relative to other countries.

The problem of relative growth has since evaporated, if the latest reports of an actual decline in U.S. output in the second quarter are to be believed. The deficit and inflation are now oil-powered and Mr. de Vries is worried that the determination of the U.S. Government to face up to this fact will not match the self-restraint in other major economies.

U.S. BONDS

BY STEWART FLEMING

Stronger signs of recession

UNDETERRED by news of widened trade deficit and a 13 per cent annual rate of consumer price inflation last month, the New York bond markets showed further strength last week in spite of the renewed weakness of the dollar on the foreign exchange markets.

Several new large corporate issues were eagerly snapped up by investors and traded at premiums over their issue prices while the $1.5bn of new 15-year Treasury Bonds sold on Wednesday were floated at an average yield of 8.81 per cent, the lowest yield on such an issue since September of last year and comfortably below the yield dealers had anticipated last Monday.

But these signs of strength in the new issue markets contrasted with a more mixed performance in the trading rooms, particularly towards the end of the week.

Many observers continue to argue that there is scope for further price gains in coming weeks. Chase Manhattan Bank, for example, draws attention to the build up in dealers' positions in recent weeks as indicative of a "more constructive" market outlook.

But others wonder whether prices have begun to run ahead of events and question whether the economic projections which have spurred bond prices upwards since the beginning of May will unfold as smoothly as the optimists in the market have assumed.

The rally was sparked by evidence at the beginning of May that the economy was weakening and it has been fuelled subsequently by each new piece of economic data which could be interpreted as supporting the thesis that the U.S. was on the verge of a recession. The assumption of the market has been that as economic growth slowed in the latter half of the year, credit demands and the inflation rate would ease.

Over the past eight-week period these hopes have sparked a bond market rally which has seen yields on 30-year Treasury bonds come down from around 9.26 per cent in the first week of May to nearer 8.80 per cent at the end of last week according to estimates by New York investment bankers Salomon Brothers. Seven-year bond yields have fallen from 9.38 per cent to 8.72 per cent and yields on long dated triple-A rated corporate utility bonds have fallen from 9.85 per cent to 9.35 per cent.

Short term money market rates, spurred by the hope that a peak in short yields has been hit for the current economic cycle, have also declined, although with the exception of Treasury bills, rates have still fallen slightly less than in the long bond market. Whereas one month Treasury bill rates have declined from 9.85 per cent to 8.90 per cent over this period, one and three month commercial paper and certificate of deposit rates are down only between 25 and 50 basis points.

Last week preliminary Commerce Department data suggesting a possible 2.4 per cent decline in real gross national product in the second quarter was one of several factors reinforcing the recessionists argument. Even the sharp increase in OPEC prices was interpreted as favourable to the bond market on the grounds that the impact this would have on inflation would be more than offset by the depressing effect of rising fuel prices and shortages on economic activity in the U.S.

The forecast of a recession leading to an easing of inflationary pressures and falling interest rates in coming months is still not universally shared on Wall Street however. Some continue to argue that the outlook is for "stagflation," an outcome which would leave no room for further falls in bond yields and which might result in a reversal of the recent rally. Others suggest that the recent weakness of the economic data reflects short term energy problems.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

DEUTSCHE MARK STRAIGHTS

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

SWISS FRANC STRAIGHTS

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

YEN STRAIGHTS

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

OTHER STRAIGHTS

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

FLOATING RATE NOTES

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]						

CONVERTIBLE BONDS

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]						

BONDTRADE INDEX AND YIELD

	Medium term		Long term	
June 29...	95.35	8.67	89.39	9.44
June 22...	95.29	8.69	89.34	9.46
High '79...	95.75	(1/2)	89.39	(30/1)
Low '79...	94.40	(11/1)	88.67	(28/2)

EUROBOND TURNOVER

U.S. $ bonds	Cedel	Euroclear
Last week	987.3	2,265.0
Previous week ...	1,488.2	1,751.1
Other bonds		
Last week	388.6	339.6
Previous week ...	294.5	243.8

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. M = Minimum coupon. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

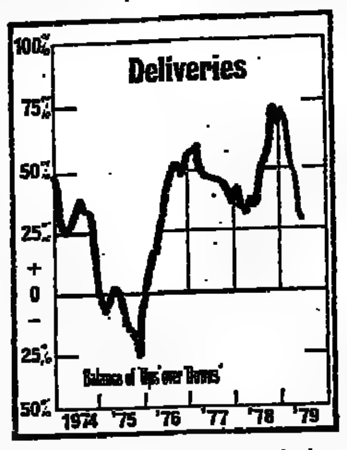
The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; E. F. Hutton Services SARL; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Internationale Luxembourg; Krediet Bank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bankers Trust International; Bondtrade; Banque Francaise de Credit International; Citicorp International Bank; Daiwa Europe NV; Deltec Trading Company; Dillon Read Overseas Corporation; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nesbitt Thomson; Salomon Brothers International; Samuel Montagu and Co.; Scandinavian Bank; Strauss Turnbull and Co.; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on June 29

FT Monthly Survey of Business Opinion

GENERAL OUTLOOK

Budget boosts confidence



THE BUDGET was generally well received by the business community, although most companies tended to emphasise that it would have no great impact on their own operations. A typical reaction from one finance director was: "There will be much more freedom to manage but it will not have a great impact on our business."

Last month's survey included new interviews with companies in the non-electrical engineering, chemical and oil and shipping and transport-connected sectors, who were last covered in February.

There was a sharp improvement in the level of optimism over both the prospects for the UK economy and the general business outlook.

The key factor was the change in Government. There was a widespread feeling that while the going would be hard over the next 12 months or so, the long-term prospects were good.

The engineering and chemical and oil sectors were less inclined to report increased deliveries over the past four months, so the deliveries index continued the downward trend started at the beginning of the year. There was a similar downward pattern in export expectations for the next 12 months.

GENERAL BUSINESS

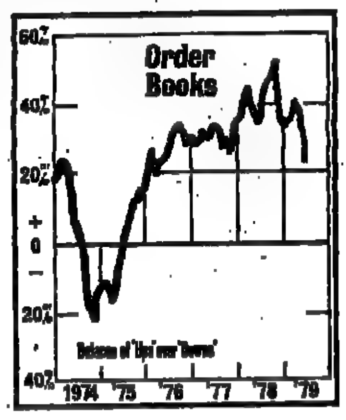
Are you more or less optimistic about your company's prospects than you were four months ago?	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
More optimistic	41	40	32	31	46	41	96
Neutral	40	31	33	35	46	59	4
Less optimistic	19	29	35	34	8	—	—

EXPORT PROSPECTS (Weighted by exports)

Over the next 12 months exports will be:	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Higher	49	61	57	61	52	11	40
Same	34	23	34	38	33	78	37
Lower	16	16	9	9	16	6	23

ORDERS AND OUTPUT

Demand levels off



THERE WERE clear signs that the pick up in demand evident in the two previous surveys is now levelling off. The index for new orders, which had risen in April and May, fell back slightly in June.

The index covering order books continued the fall that started last month as a result of companies in the chemical and oil sector being less inclined to say they expected gains than they had when last interviewed in February.

The index covering expected turnover in the next 12 months also continued last month's decline. Although the engineering and shipping and transport sectors expected greater increases in turnover, this was more than balanced by a drop in expectations in the chemical and oil sector.

The median expected increase therefore fell from 6.9 to 6.3 per cent and there was also a decline in the excess of companies expecting an increase over those expecting a drop.

Companies said they did not expect the Budget to have much effect on their turnover, although one or two said the firm pound could have a depressing effect.

NEW ORDERS

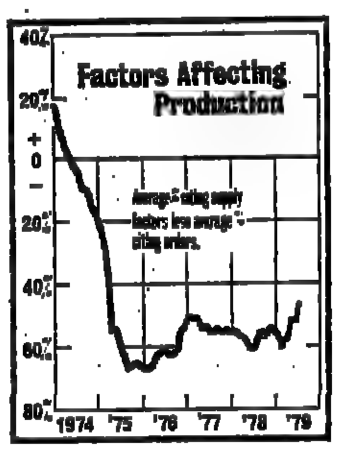
The trend of new orders in the last 4 months was:	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Up	56	61	59	50	47	50	14
Same	16	18	13	14	28	15	—
Down	11	13	15	15	17	—	—
No answer	17	8	13	21	8	35	86

PRODUCTION/SALES TURNOVER

Those expecting production-sales turnover in the next 12 months to:	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Rise over 20%	7	7	9	6	15	4	—
Rise 15-19%	3	2	8	8	—	2	41
Rise 10-14%	18	25	20	19	9	—	—
Rise 5-9%	23	22	28	21	28	18	14
About the same	39	38	37	36	24	50	4
Fall 5-9%	—	1	1	1	—	—	—
No comment	10	5	5	9	24	26	41

CAPACITY AND STOCKS

Further below plan



THE INDEX covering the extent to which industry was working to capacity declined for the second consecutive month. Both the engineering and chemical and oil sectors were more inclined to say they were working below planned output levels than they had been in February.

There was a fall in the level of expected stocks for the next 12 months, mainly in work in progress. In line with this trend *there was less tendency* for companies to feel that their level of stocks was too low.

There was a further small movement towards citing supply factors as determining the level of output, mainly because the engineering and chemical and oil sectors were less inclined—rather surprisingly—to mention shortage of orders than in February.

Although demand remained the more important factor overall, the index, measuring the extent to which output is dominated by demand as opposed to *supply, now stands closer* to the supply side than at any time during the last four years.

CAPACITY WORKING

	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Above target capacity	13	13	10	12	—	4	10
Planned output	56	61	67	62	32	39	86
Below target capacity	30	26	22	25	60	57	4
No answer	1	—	1	1	8	—	—

STOCKS

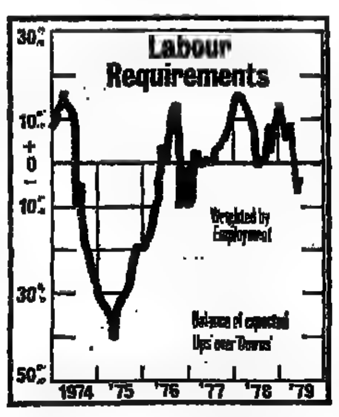
	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Raw materials and components over the next 12 months will:							
Increase	41	44	41	42	40	28	41
Stay about the same	51	45	47	42	30	72	49
Decrease	5	8	8	8	15	—	10
No comments	3	3	4	8	15	—	—
Manufactured goods over the next 12 months will:							
Increase	27	30	30	32	23	2	—
Stay about the same	45	45	43	39	24	70	45
Decrease	7	9	9	8	—	—	10
No comments	21	16	18	21	53	28	45

FACTORS CURRENTLY AFFECTING PRODUCTION

	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Home orders	72	78	76	81	81	48	95
Export orders	43	50	54	60	62	55	95
Executive staff	10	8	16	16	23	39	—
Skilled factory staff	34	27	26	27	62	53	51
Manual Labour	9	8	14	10	—	13	41
Components	6	6	2	3	9	4	—
Raw materials	7	11	11	12	9	6	10
Production capacity (plant)	13	13	13	11	8	2	—
Finance	—	—	1	1	5	—	—
Others	9	9	10	10	5	—	—
Labour disputes	26	27	27	18	22	9	55
No answer/no factor	6	6	3	3	—	9	4

INVESTMENT AND LABOUR

Exchange control section



THE SURVEY incorporates a new section on the effect of exchange controls and their relaxation in the Budget. It concludes on the basis of the three sectors interviewed this month that exchange controls have not in the past had much effect on the actual level of overseas investment but may have influenced the means used for financing it, encouraging companies to borrow overseas and thereby supporting the exchange rate.

Both the engineering and chemical and oil sectors were less inclined to say they expected to increase their capital expenditure over the next 12 months. This was more than offset by greater optimism in the shipping and transport sector, although the survey warns that the sample in this sector is small and therefore the upward movement in this index should be treated with caution.

There was a slight improvement in the index for labour requirements over the next 12 months, although there is still an excess of companies saying they expected a decline in their labour forces over those who forecast an increase.

LABOUR REQUIREMENT (Weighted by employment)

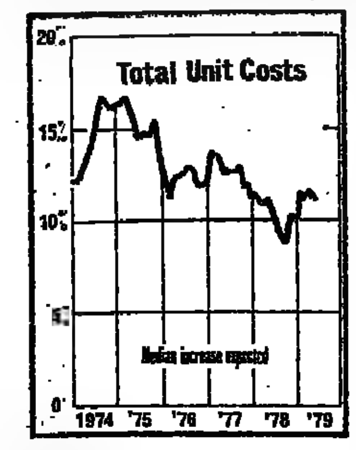
Those expecting their labour force over the next 12 months to:	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Increase	15	17	21	26	12	5	—
Stay about the same	65	58	38	57	78	93	86
Decrease	19	24	20	17	10	2	14
No comment	1	1	1	—	—	—	—

CAPITAL INVESTMENT (Weighted by expenditure)

Those expecting capital expenditure over the next 12 months to:	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Increase in volume	49	50	52	53	37	41	81
Increase in value but not in volume	18	13	9	6	5	39	10
Stay about the same	14	14	19	23	—	—	9
Decrease	17	22	20	16	48	20	—
No comment	2	1	—	2	10	—	—

COST AND PROFIT MARGINS

Higher wages expected



COMPANIES WERE more inclined to expect higher wage and total unit costs than before, while at the same time there was more confidence that profit margins would improve over the next 12 months.

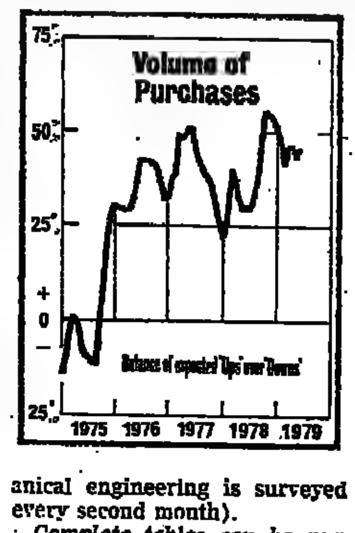
On the *wages front company* attitudes continued to be less rigid than they were last year, with only a few companies saying they would definitely refuse wage demands in excess of the amount budgeted.

The main reason for the rises in both expected wages and unit costs was the Budget. The survey comments that this implies further rises in the index in future months.

All three sectors were more inclined to expect profit margins to improve over the next 12 months. As a result this index, which had been failing, shows a small rise.

These surveys, which are carried out for the Financial Times by the Taylor Nelson Group, are based upon extensive interviews with top executives.

Three sectors and some 30 companies are covered in turn every month. They are drawn from a sample based upon the FT-Actuaries' Index, which accounts for about 60 per cent of all public companies.



The all-industry figures are four-monthly moving totals covering some 120 companies in 11 industrial sectors (mechanical engineering is surveyed every second month).

Complete tables can be purchased from Taylor Nelson and Associates.

COSTS

	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Wages rise by:							
5-9%	8	10	14	14	—	—	—
10-14%	64	66	60	61	68	74	14
15-19%	17	18	16	14	9	13	4
20-24%	3	1	1	1	—	13	—
No answer	8	5	12	10	23	—	82
Unit cost rise by:							
0-4%	3	3	1	1	—	—	—
5-9%	28	26	25	26	4	18	—
10-14%	41	45	47	46	64	26	4
15-19%	7	11	11	10	—	26	4
20-24%	1	—	—	—	—	4	—
Same	—	3	3	3	—	—	—
Decrease	3	4	4	4	—	—	—
No answer	17	8	9	10	32	26	92

PROFIT MARGINS

Those expecting profit margins over the next 12 months to:	4 monthly moving total				June 1979		
	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elect.) %	Chem. & Oils %	Shipping & Transport %
Improve	38	34	37	43	26	58	45
Remain the same	38	44	41	35	11	24	14
Contract	20	20	20	20	48	18	—
No comment	4	2	2	2	15	—	41

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

TOMORROW

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

WEDNESDAY, JULY 4

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

THURSDAY, JULY 5

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

FRIDAY, JULY 6

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

SATURDAY, JULY 7

DIVIDEND & INTEREST PAYMENTS—

[illegible]

AUTHORISED UNIT TRUSTS

[illegible]

INSURANCE AND PROPERTY BONDS

[illegible]

Tower Unit Trust Mngt. Ltd.
39/45 Finsbury Square, EC2A 1PX 01-628 2294

Income & Growth	23.3	24.5	+0.2	6.77

Trades Union Unit Tst. Managers♥
100 Wood Street, E.C.2. 01-628 8011

TUUT June 1	57.9	60.7	.....	4.88

Transatlantic and Gen. Secs.♥ (C) (Y)
91-99, New London Rd., Chelmsford. 0245-51651

Barbican June 28	82.9	88.2	.....	6.44
(Accum. Units)	130.5	136.7	.....	6.44
◊Barb. Expt. June 27	75.4	77.3	.....	5.90
Buckhm. June 28	82.6	87.7	.....	4.99
(Accum. Units)	105.5	112.1	.....	4.99
Coleraco June 29	137.1	165.6	-1.4	5.65
(Accum. Units)	172.1	182.7	1.6	5.65
Cumbl. June 27	55.3	59.4	.....	7.30
(Accum. Units)	63.5	68.2	.....	7.30
Glen June 26	55.6	59.2	.....	4.02
(Accum. Units)	73.7	78.3	.....	4.02
Marlboro. June 26	50.5	52.9	.....	2.75
(Accum. Units)	58.8	61.7	.....	2.75
Van.Grwl. June 26	51.3	53.9	.....	3.56
(Accum. Units)	64.5	67.6	.....	3.56
Vann Hy June 26	75.1	79.1	.....	8.03
Vang. T'ee June 27	44.3	46.6	.....	6.23
(Accum. Units)	48.3	50.8	.....	6.23
Wickmr. June 28	66.2	70.1	.....	4.48
(Accum. Units)	81.2	86.0	.....	4.48
Wick-Div. June 29	69.2	73.0	-1.2	8.51
Do. Accum.	82.9	86.6	-1.5	8.51

Tyndall Managers Ltd.♥
18, Canynge Road, Bristol. 0272 32241

Income June 27	98.0	103.6	.....	9.16
(Accum. Units)	190.6	200.2	.....	9.16
Capital June 27	138.6	145.6	.....	4.32
(Accum. Units)	198.8	208.8	.....	4.32
Exempt June 27	117.0	123.0	.....	8.19
(Accum. Units)	172.4	181.2	.....	8.19
Int. Earn. June 27	254.8	270.2	.....	5.58
(Accum. Units)	293.2	310.8	.....	5.58
Pref. June 27	105.4	111.8	.....	12.93
(Accum. Units)	138.6	147.0	.....	12.93

24, Castle St., Edinburgh. 031 225 1169

Scot. Inc. June 27	173.2	183.4	.....	9.04
Scot. Cap. June 27	144.6	153.4	.....	5.03
(Accum. Units)	178.6	189.4	.....	5.03

London Wall Group 0272 32241

Capital Growth	84.7	90.6	+0.1	6.65
Do. Accum.	90.8	97.1	.....	6.65
Extra Inc. Growth	36.7	39.4	+0.1	10.56
Do. Accum.	45.8	49.2	+0.1	10.66

[illegible]

OFFSHORE AND OVERSEAS FUNDS

Alexander Fund
37, rue Notre-Dame, Luxembourg.

Alexander Fund	US$7.84		.....	—

Net asset value June 25.

Allen Harvey & Ross Inv. Mgt. (C.I.)
1 Charing Cross, St. Helier, Jsy., C.I. 0534-73741

AHR Gilt Edg.Fd.	£12.13	12.14	.....	12.23

Arbuthnot Securities (C.I.) Limited
P.O. Box 284, St. Helier, Jersey 0534 76077

Cap. Tst. (Jersey)	117.0	121.0	.....	8.26

Next dealing July 2.

Gov't Secs. Tst.	92.0	95.5	.....	13.08

Next dealing July 2.

East &Intl.Tst.(CI)	100	107	.....	3.50

Next dealing date July 12.

Australian Selection Fund NV
Market Opportunities, c/o Irish Young & Outhwaite, 127 Kent St., Sydney

US$1 Shares	$US1.48		.....	—

Net asset value November 25.

Bank of America International S.A.
35 Boulevard Royal, Luxembourg G.D.

Wldinvest Income	112.42	115.00	.....	8.19

Prices at June 21. Next sub. day June 27.

Banque Bruxelles Lambert
2, Rue De la Regence B 1000 Brussels

Renta Fund	US$58.77	65.59	+0.34	8.07

Barbican Managers (Jersey) Ltd.
P.O. Box 63, St. Helier, Jersey 0534 74806

Barb. Int. Fund	84.2	89.2	.....	5.00

Barclays Unicorn International
1, Charing Cross, St. Helier, Jersey. 0534 73741

Overseas Income	48.6	51.3	.....	12.50
Unidollar Trust	$US11.50	12.15	.....	1.06
Unibond Trust	$US93.14	99.02	.....	9.00

1, Thomas St., Douglas, Isle o. Man. 0624 4856

Unicorn Aust. Ext.	40.9	44.0	.....	2.00
Do. Aust. Min.	30.5	32.9	.....	1.00
Do. Grtr. Pacific	67.6	72.7	.....	—
Do. Intl. Income	36.5	39.3	.....	8.90
Do. Isle of Man Tst.	47.2	50.8	+0.3	8.90

Kemp-Gee Management Jersey Ltd.
1 Charing Cross, St. Helier, Jersey. 0534 73741

Capital Fund	113.5	117.0	.....	—
Income Fund	64.6	66.7	.....	9.16
Gilt Bond	£1.015	1.069	.....	—

Keyser Ullmann Ltd.
25, Milk Street, EC2V 8JE. 01-606 7070

Fonselex	Fr1,306	1,347	.....	2.10
Bondselex	117.10	122.90	.....	2.00
Cen. Assets	£136.99	137.03	+0.04	—

King & Shaxson Mngrs.
1, Charing Cross, St. Helier, Jersey. (0534) 73741
Valley Hse., St. Peter Port, Gurnsy. (0481) 24706
1 Thomas Street, Douglas, I.O.M. (0624) 4856

Gilt Fund (Jersey)	9.07	9.37	.....	12.90
Gilt Trust (I.o.M.)	104.3	107.0	.....	12.00
Gilt Fnd. Guernsey	9.47	9.53	.....	12.00

Intl. Govt. Secs. Tst.

First Sterling	£19.32	19.39	.....	—
First Intl.	$US211.65	212.54	.....	—

Kleinwort Benson Limited
20, Fenchurch St., EC3. 01-623 8000

Eurinvest	LF1124		+1	4.31
Guernsey Inc.	67.0	71.0	.....	4.47
Do. Accum.	85.2	90.3	.....	4.21
KB Far East Fd.	$US23.16		.....	2.27
KB Gilt Fund	£10.76	10.82	.....	11.45
KB Intl. Fund	US$12.46		.....	2.25
KB Japan Fund	US$32.37		.....	0.72
K.B. U.S. Gwth. Fd.	$US13.18		.....	1.59
Signet Bermuda	US$5.37		.....	1.69
K.B. Int. Ed. Fd.	$104.43		.....	—

Lloyds Bk. (C.I.) U/T Mgrs.
P.O. Box 195, St. Helier, Jersey 0534 27561

Lloyds Tst. O'seas	52.1	54.8	.....	2.75

Next dealing July 16.

Lloyds Trust Gilt	£10.59	10.10	.....	12.00

Next dealing July 6.

Lloyds Bank International, Geneva
P.O. Box 438, 1211 Geneve 11 (Switzerland)

Lloyds Int. Growth	SF372.50	356.5	.....	1.20
Lloyds Int. Income	SF291.5	303.0	.....	5.30

M & G Group

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NOTES

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FINANCIAL TIMES REPORT

Monday July 2 1979

BRADFORD

With employment in wool textiles declining, the city is promoting itself as a location for investment by bringing in British and foreign businessmen for a special event—the Bradford Experience. At the same time a stone-cleaning programme is shaking off Bradford's grimy image as it looks to the tourist trade as an increasing source of revenue.

A need to find more jobs

By Rhys David

IN A FEW months' time, Bradford will be bringing businessmen from Britain, Europe, Japan and North America to the city to sample what is being called the Bradford Experience.

The facilities that Bradford can offer will be on display in a giant sports complex named after Richard Dunn, a local scaffolder who won the British heavyweight boxing championship and went on to challenge Muhammad Ali (with predictable results).

About 600 local companies specialising in the provision of services to industry will have their own display in the main hall, and the range of products which are made by other companies in the district will be exhibited in separate halls covering different industrial sectors.

The week, from October 1-7, is Bradford's attempt to project itself as a location for investment, a race which most cities in Britain, and indeed on the Continent, have already entered.

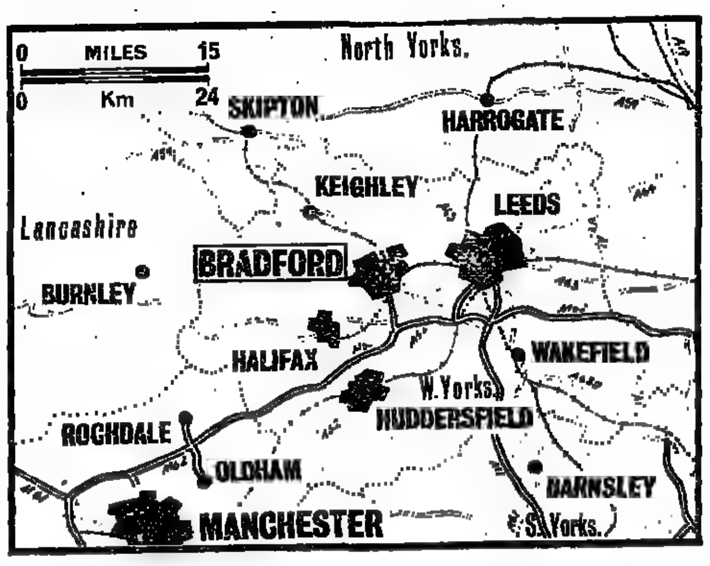
It is not being called the Bradford Experience for nothing, however. With a now largely unjustified image as a city of northern grime, Bradford realises that it will have difficulties selling itself unless visitors are prepared to make the trip and be surprised. For this reason, the city will be offering special travel and accommodation to potential investors with projects in mind, and will be making sure they are exposed to more than a quick tour of industrial estates.

Guides are to be assigned to small parties of two or three overseas visitors. In this way, it is hoped that potential investors—and about 12,000 are being invited—will find out something about the people of the area, and see some of its more out of the way attractions.

Bradford, a metropolitan district within West Yorkshire, embracing the towns of Ilkley, Shipley, Bingley and Keighley as well as the city of Bradford, has come somewhat belatedly into the now highly-competitive business of seeking out footloose new industry.

It has always been a sturdily independent place, relying on its wool textile industry, and the now widely-diversified engineering industry which grew up with it, to create wealth.

In the inter-war years Bradford's population, which now totals 460,000, was swelled by refugees from central Europe and in the post-war years labour shortages led to a further search by employers for workers in Europe and in Asia. Clothing also grew up alongside wool textiles, forming the basis of what is now one of Bradford's biggest service sector employers—mail order. Two of Britain's biggest group's Empire and Grattan, are both based in the city.



The need to mount a new campaign for investment at this time has stemmed from the decline that has since overtaken wool textiles and other important industrial sectors. Wool textiles still employs roughly 16 per cent of the manufacturing workforce or 30,000 people, and the UK industry as a whole—most of it located in West Yorkshire—has a high reputation in overseas markets, exporting products worth £400m last year—about 40 per cent of output.

Contraction

However, production has been falling as other countries have moved into textile manufacture, and rationalisation of the industry has led to mill closures and the loss of jobs. Though the industry as a whole has spent nearly £100m on re-equipment over recent years, the prospect is for further contraction, according to a recent government report.

Altogether between 9,000 and 18,000 jobs are likely to be lost in wool textiles in the years 1977-1980 and Bradford, as the main centre of employment, is likely to feel the greatest impact.

Other major closures in engineering have already hit the district, where manufacturing, despite the growth of services in recent years still accounts for 42 per cent of jobs compared with 32 per cent nationally. Thorn Consumer Electronics shut two plants making television sets last year with the loss of more than 2,200 jobs. The company, which had been affected by the surge in imports of foreign (mainly Japanese) sets, had already cut its labour force by 5,000 in the five years up to 1978.

Lucas Aerospace also announced last year the closure of a major plant employing 750 people, but jobs for 400 people are being made available in other plants and in a new factory to be completed in two years' time. Though the district's many smaller concerns have proved more resilient than their bigger rivals, the cumulative loss of jobs in manufacturing since 1976 is 8,000 and unemployment, at more than 6 per cent, is above both the national average and that of West Yorkshire. And in contrast with practically everywhere else in the UK, the working age population of Bradford is actually increasing, and may be up as much as 9,000 over the current total in five years' time, and 15,000 up by 1991 at 305,000.

The main reason for this is the growth in size of the predominantly youthful new Commonwealth population—up from 28,000 in 1971 to 47,000 at present, with the biggest rise taking place in the Pakistani community, up from 14,000 to 30,000. Of the non-white population about 70 per cent are under 30 and only 1.5 per cent are over 60. This means that in Bradford as a whole 47 per cent of the population is under 30 against a national average of 43 per cent.

Significantly, too, while the non-white labour force is set to grow from 25,000 to about 45,000 by 1991, it is this sector of the population which is currently suffering most from unemployment. At present non-white people make up 15 per cent of the unemployed, but only 6 per cent of the potential workforce.

Further, the decreasing need for unskilled labour is expected to affect the non-white community more seriously than the white. Clearly there is a danger of increased alienation of the

CONTINUED ON NEXT PAGE

Drive to restore battered economy

THE VISIT to Bradford by a party of Dutch tennis players, avid for a few days of intensive sport at the metropolitan district's splendid Nab Woods Sports Centre, may not appear to be directly connected with the drive for new jobs. But it is. It is one of the weekend packages which Bradford hopes will come its way increasingly, giving the district a growing stake in the tourist business.

The link with Bradford has been forged by Dutch businessmen who have visited the city and liked what they saw, particularly the leisure facilities, the nearby Dales and the speedy communications with the coast. There have been Dutch shopping parties and one Dutch company is even giving a weekend in the city as a prize to some of its star salesmen. Local cynics predictably observe: "Presumably the second prize is two weekends in Bradford."

"But you can't underrate these package weekends we're offering," a local official said. "The income to Bradford from any one of them is about £30,000. The number of jobs in this area in what you can loosely describe as the leisure industry rose from 10,000 in 1961 to 16,000 in 1976."

The flirtation with tourism is just one example of Bradford's determination to restore its battered economy. The city itself has an high level of unemployment—well above the national average — although outlying areas, notably Keighley with a strong and prosperous engineering sector, is in much better heart. Huddersfield, centre of the adjoining metropolitan district of Kirklees, is an object of Bradford's envy—because of its industrial diversity it has always managed to weather economic storms and usually had one of the lowest rates of unemployment in the north.

It is increasing diversity which Bradford is seeking. The closure of Thorn Electrical's television component plants, a new industry which had provided many jobs to absorb former textile workers, was a bitter blow and turned the residential and light industrial suburb of Lidget Green into a miniature depressed area.

Some expansion by the Grattan mail order company, one of the district's main employers, whose headquarters are in the same area, helped to cushion the blow, but nobody is underrating what the loss of Thorn has meant.

Mr. Harry Bexon, industrial officer for the metropolitan district, believes that Bradford has a lot to offer incoming companies. "Apart from the obvious financial incentives," he said, "we have the sort of skilled labour force available that should attract new industries like micro-chips. There's a whole tradition of craft intelligence and finger dexterity that goes right back to the better days of the textile industry."

Independent

Bradford has many sites to offer incoming companies. The main one is the 130-acre privately owned Euroway Industrial Estate, which lies to the south of the city on the edge of the motorway, and with a popular and recently-built Novotel almost on the site. The Euroway estate had teething troubles, but now, according to Mr. Bexon's department, is really "taking off." There are other sites, many owned by the council, in all parts of the metropolitan district.

The work of providing new sites goes on. At Shipley, a fiercely independent little town which fought annexation by Bradford for many years, GMF Developments is clearing a 400,000-acre site, once occupied by large textile mills. Most of the old buildings are being pulled down, but some usable ones will be left.

The incentives Bradford, as an intermediate area offers to incoming companies, include 20 per cent direct grants and selective assistance such as tax reliefs and rent-free periods. The council also has a scheme of loans over 30 years—"with no strings attached," Mr. Bexon says. These, the council felt, were particularly attractive when compared with other borrowing facilities, but there was some concern after the recent rise in Minimum Lending Rate.

Bradford was slow to enter the job-hunting business. Even though textiles declined, it was felt at first that the city had a sound economic base, with engineering, high-quality printing and growing service industries.

Mr. Bexon's department points out that even today there is 10 per cent more manufacturing in Bradford than the national average. It hopes for more. Despite 'extras' like tourism, the city's leaders feel that manufacturing industry will always be its strength.

There is some resentment that Leeds, its old rival nine miles away, has attracted the cream of commerce to its new city centre. But Leeds, from the beginning, set out to be a great regional commercial centre. Bradford points out that commercial and industrial property in Leeds is more expensive than in Bradford, which has equally good communications.

So far the city's jobs drive has attracted investment from Germany, the U.S., Switzerland and Spain. There are hopes that when Inmos goes ahead with its new UK development, based on Bristol, Bradford will be included in its centres.

Many local people tend not to share the planners' enthusiasm. The main sceptics are the old textile men who grumble that if all this zest for industrial development had been put into seeing the wool industry through its bad years, things might have been different today.

Alan Forrest

هكذا من الأصل

Home loans worry

BRADFORD HAS always been a stronghold of the building society movement. Older citizens will tell you, not entirely facetiously, of the days when a fiver put into a share account by a fond aunt was many a lad's first faltering step into the middle classes.

Today, within half-an-hour's drive of the City Hall, there are the head offices of building societies which control 40 per cent of the whole housing finance movement in the UK.

Three of them are in Bradford itself—the Bradford and Bingley, the Provincial and the Huddersfield and Bradford. Only ten miles away, at Halifax, the centre of the neighbouring metropolitan district of Calderdale, the huge skyscraper headquarters of the Halifax, Britain's biggest building society with £7.2bn assets, dominates the skyline.

Mr. P. M. Harrand, Provincial's assistant secretary, pointed out recently: "The movement employs half as many again in Yorkshire as are employed in London, and no other area in the UK approaches West Yorkshire's total building society employment figure of 4,500."

All these societies are facing immediate problems with the increase in Minimum Lending Rate in the Budget. But long before Sir Geoffrey Howe's speech last month the movement has been looking forward to the 1980s. One of the societies with some misgivings about the future was Provincial.

Mr. Harrand, writing in the Bradford Chamber of Commerce Journal, said: "Societies are not particularly concerned about uninformed criticism of the extension of their branch networks, or the incredibly complicated consumer credit legislation. Instead, they are beginning to worry about more fundamental things—problems which are not apparent now but which may be serious in the 1980s."

Provincial has worked out figures which show two recent trends—a worrying constant increase in withdrawals and the rate of house price increases.

Average

Mr. Harrand says: "Obviously, as societies build up more investments they are likely to have more withdrawals, but the proportion of money withdrawn each year is increasing and in 1979 the movement as a whole will have to take £15bn merely to meet withdrawals."

He points out if a conservative 15 per cent is taken for the average house price increase over the country in over 12 months, it meant that every £1m lent would accommodate 15 per cent fewer borrowers.

Provincial has been one of many societies taking steps to limit its exposure to withdrawals. They have introduced term shares, whereby investors are paid a higher rate on their deposits providing they are left untouched for two, three or four years. "Societies now have millions of pounds in these departments, and they have proved an invaluable base of stable investments on which to maintain a stable mortgage-lending programme," says Mr. Harrand.

All societies do not share the crisis fears of Provincial and its supporters. Mr. Richard Wheway, Halifax's financial general manager, is on record as saying: "It's perfectly true that if you look at the rate of investors to borrowers, it has been going up. The ratio of new investors to new borrowers has been going up even faster." He suggested the situation was still not one to cause undue alarm.

Both Provincial and Huddersfield and Bradford have their headquarters in the city centre, Provincial just across the road from the impressive Florentine-style City Hall, Huddersfield and Bradford a short distance away. But perhaps the best sited of the three society headquarters—certainly from a staff point of view—is Bradford and Bingley, housed in the main street of Bingley, the little semi-rural township on the green banks of the Aire and the place made famous by John Braine's novel Room At The Top.

An official of Bradford and Bingley felt the future for the movement in the long term was good. There were immediate problems, he said, but societies were putting in a lot of work to make their services more attractive to members, such as insurance-linked schemes—Bingley has one in association with Eagle Star.

Provincial, with assets of £1.9bn and Bradford and Bingley (£870m) have enjoyed consistent growth rates with the Halifax. It is a much-changed building society movement as a result of mergers which have made working more efficient and of comprehensive computerisation.

All these changes have revolutionised building society staffing and training. Mr. Harrand says: "The most obvious example of progress is computerisation, and building societies now employ computer programmers and systems analysts whose backgrounds are often from outside the movement.

"Professional accountants have always been accepted within the movement, but over the last ten years societies have been able to employ their own solicitors, property valuers, advertising experts, premises maintenance staff and qualified personnel executives.

"While the young trainee will still be expected to move around the departments and learn as much as possible of the business, it is no longer possible for him to learn a little bit of everything, as may have been the case 30 years ago."

The building societies are Bradford's main contribution to the financial services of the area. Leeds has taken the lion's share of the banking and administration services, much to the disappointment of some Bradford people, but the less prejudiced admit that Leeds is probably a better centre for the region.

The growth of Leeds as a regional financial headquarters means that Bradford is only nine miles away from the banking facilities afforded by Hill Samuel, N. M. Rothschild, Singer and Friedlander and Julian B. Hodge as well as big centres of the clearing banks.

Alan Forrest

Relaxed views on race

JOHN NAYLOR is a walking history of Bradford's immigrant population. A former detective sergeant in the old Bradford CID (now merged into the West Yorkshire Metropolitan Force), he found himself, as a young constable back in 1938, helping to settle Basque refugees from the Spanish Civil War.

"That was the start of it," he said. "Later I worked as an aliens officer and on juvenile liaison. The Poles came to the city after the war and the Latvians and the other Baltic people.

"Then we got the Africans, the West Indians and the Asians. I always seemed to be going into mills and foreigners' homes and sorting out their problems."

When he was approaching retirement from the force and the fledgling Bradford Community Relations Council wanted a liaison officer, Naylor's own chief constable sent for him and "almost ordered me to apply for the job."

He sits in his office in Marlborough Road, not far from the sprawling Asian quarters near the city centre, helping immigrants with their problems. Or if he isn't there, he may be escorting busloads of coloured children round York and feeding them orange squash from paper cups.

Mr. Naylor is typical of the people who are helping to make Bradford one of Britain's most peaceful and relaxed multi-racial communities. "We don't talk about immigrants any more," one of his helpers said, "we talk about ethnic minorities. The Asian kids put it more simply. You see them wearing badges proclaiming 'I was born here'."

The newcomer to Bradford can only be impressed by the standard of race relations. Of course there are tensions — it would be too much to expect brotherhood has arrived. But despite some hostility the Asians have been accepted as part of the city's industrial life, and as one textile man put it: "They manned the night shifts in the woolcombing mills when we needed them and have made a valuable contribution to the industry."

Even today a majority of Asians work in the wool textile mills. There is a high rate of immigrant unemployment—how much this is due to the decline of the textile industry and how much to discrimination by some employers is hard to say. Certainly some service industries seemed reluctant to take on coloured workers, but this is changing and more and more of them are to be seen as assistants in shops and supermarkets.

They came to Bradford in the 1950s, to a city which has a tradition of absorbing foreigners. The German Jews who arrived in the last century played a major part in the local industry. After World War II many East Europeans arrived. Some stayed awhile and then went to the U.S. and Australia. Others stayed on, and John Naylor, when he isn't dealing with his Asians, finds time to help elderly Poles who feel out of touch with their compatriots because they can't spend much time at their social clubs on an old-age pension.

All these immigrants have brought variety to Bradford's life. You probably can get as good a curry in Bradford as anywhere outside London. You can find yourself in a perfectly ordinary English pub — except that the landlord is a Pakistani.

The presence of so many in Bradford—around 63,000—has created problems—in education for instance. There is local controversy about "bussing" of Asian children. Another headache for educationists was the reluctance of Asian fathers to send their daughters to a co-educational school.

But John Naylor thinks the signs are that race relations will go on improving. "It has been a long-drawn out task," he says, "but big advances have been made. The teachers and social workers have done a marvellous job." Community relations workers are fond of pointing out that the National Front has had no success in Bradford at all.

It looks as if a lot of Asians will find employment in their own community when the job situation improves. Bradford is suddenly aware of the emergence of an Asian middleclass. In fact the voice of racialism in Bradford doesn't condemn them for "sponging on the State" but expresses a kind of jealousy at their success in business, opening little shops and bigger shops and one or two even emerging as mini-tycoons, particularly in the clothing business.

There are already three Asian city councillors and several Asian magistrates. They work tirelessly on their own community problems. Problems generally will continue for some time, but you find more and more local businessmen standing up for the immigrant community. "They're industrious," one said. "I wouldn't hesitate to employ them. Their housing standards have improved. At one time the sneers about dirt and overcrowding were true. But things have got better. And they'll continue to do so."

A.F.

Jobs

CONTINUED FROM PREVIOUS PAGE

non-white community if jobs are not found, though one encouraging development is the continued growth in Indian and Pakistani small businesses, in clothing and engineering in particular.

The creation of wealth from new industry is also essential, however, if Bradford is to tackle some of its other social problems. The city was fortunate enough not to commit itself in the 1960s to the then fashionable high-rise housing developments, and has concentrated instead on improving its older stone-built Victorian housing.

Much of the housing stock remains sub-standard or in poor state of repair, however, including some of the council's own older estates. About 12,000 houses in the city are officially classed as lacking one or more basic amenity, compared with 25,000 in 1971.

Personal standards of wealth are also low, as in West Yorkshire as a whole, with men and women in manual work both earning less than the national average. Family car ownership at 47 per cent is below the national average of 56 per cent and the numbers on supplementary benefit are high—about 30,000. Against this, the cost of both housing and food are significantly cheaper than in most other parts of the country.

But although Bradford, like most other older industrial centres in Britain, now has its problems, the city fathers are confident that those who do sample the Bradford Experience will go away pleasantly surprised.

A substantial stone cleaning programme over recent years has revealed just how splendid a heritage of sandstone buildings Bradford's founding fathers have left, with pride of place undoubtedly going to the Florentine City Hall. The Wool Exchange, by contrast, took a Venetian model, while at Shipley to the north of Bradford itself a complete Italian-style village was built by Sir Titus Salt, with library, hospital, school and almshouses, to accommodate workers employed at his large mill nearby (now part of Illingworth, Morris).

Bradford's city centre admittedly also has had to accommodate box-like modern hotel buildings and office blocks of the three major building societies headquartered there. And its shopping facilities have been supplemented by an Arndale Centre which, like its cousins in other cities, proclaims little more than modern functionalism. Nevertheless, redevelopment has given Bradford a commercial centre which evidently works.

A number of recent improvements in its transport infrastructure make the city no longer as inaccessible as it once was. A motorway spur joins Bradford to the trans-Pennine M62 and from this to the M1. The city is also continuing to press for a proposed new link which would take traffic travelling North from the M62 to the A1 to pass between Leeds and Bradford rather than east of Leeds.

By rail Bradford's previously poor direct service to London has been improved with the introduction of new high-speed trains, and the journey time has been cut to under 2½ hours.

By air Bradford is linked, through the municipal airport it shares with Leeds, with all the main UK centres and with a number of Continental cities, though the type of aircraft is restricted by the runway length.

The new Bradford, which has emerged over the past decade, though undeniably faced with serious social and economic problems, is a much more attractive place than the old. And because of this city planners are now assessing its potential even as a tourist centre.

It is an idea which is not as far-fetched as it might seem. The district since local government reorganisation in 1974 has stretched out to the Yorkshire Dales National Park and includes the attractive former spa town of Ilkley. In Haworth, home of the Brontës, Bradford has the second biggest literary tourist attraction in Britain (after Stratford-on-Avon) with 700,000 visitors a year, while Bradford itself has begun to attract fans of Victorian architecture and industrial archaeology.

Services associated with tourism and leisure are in fact seen as one of the fastest-growing parts of the local economy and, from Bradford's point of view, have the additional advantage of being labour-intensive.

If Bradford can develop this role and secure its share at least of new manufacturing developments it will be well satisfied. There is confidence too that this is bound to happen once investors have sampled the Bradford Experience.

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AUSTRALIAN

TINS

COPPER

June	Dec.	Messina R0.50	76	12.12	—	—	—

MISCELLANEOUS

—		Barymin	66	—	—	—	—
—		Burma Mines 17½p	13	5.75	—	—	—
Aug.	Feb.	Cons. Murch. 10c.	290	3.1	Z030c	—	6.4
November		Northgate C$1	400	30.9	—	—	—
Jan.	July	R.T.Z.	275	8.5	11.5	2.7	6.0
—		Robert Mines	24	—	—	—	—
—		Sabina Inds. C$1	37	—	—	—	—
—		Tara Exptn. $1	625	—	—	—	—

GOLDS EX-$ PREMIUM

London quotations for selected South African gold mining shares in U.S. currency excluding the investment dollar premium. These prices are available only to non-UK residents.

Feb.	Aug.	Buffels R1	$14	2.1	Q200c	ϕ	17.1
Aug.	Feb.	East Drie R1	$13½	2.1	†Q115c	1.6	10.5
Aug.	Feb.	East Rand Prp. R1	890c	2.1	†Q10c	—	1.3
June	Dec.	F.S. Geduld 50c	$26½	30.10	†Q315c	2.4	14.1
June	Dec.	Pres. Brand 50c	$17⅝	30.10	†Q150c	3.2	9.9
May	Nov.	St. Helena R1	$17	25.3	†Q190c	1.4	13.2
Aug.	Feb.	Stilfontein 50c	620c	2.1	†Q66c	ϕ	13.4
Aug.	Feb.	Vaal Reefs 50c	$31¼	29.1	Q280c	2.7	10.1
Feb.	Aug.	West Drie R1	$48½	2.1	Q615c	1.7	16.2
June	Dec.	West Hldgs. 50c	$32¾	2.5	†Q415c	1.4	15.0
Feb.	Aug.	Western Deep R2	$15⅛	29.1	Q147½c	2.1	11.5

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on the basis of net distribution; bracketed figures indicate 10 per cent. or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent. and allow for value of declared distributions and rights. Securities with denominations other than sterling are quoted inclusive of the investment dollar premium.

- ▲ Sterling denominated securities which include investment dollar premium.
- ■ "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ϕ Figures or report awaited.
- †† Unlisted security.
- ¢ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividends or forecasts.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ♥ Excluding a final dividend declaration.
- ☆ Regional price.
- II No par value.

a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. w Yield allows for currency clause. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1979-80. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1978-79. K Figures based on prospectus or other official estimates for 1978. M Dividend and yield based on prospectus or other official estimates for 1978. N Dividend and yield based on prospectus or other official estimates for 1979. P Figures based on prospectus or other official estimates for 1978-79. Q Gross. T Figures assumed. Z Dividend total to date. §§ Yield based on assumption Treasury Bill Rate stay unchanged until maturity of stock.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

"Recent Issues" and "Rights" Page 15

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REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

Albany Inv. 20p	26	......			
Bertam	25	......	**IRISH**		
Bdg'wtr. Est. 50p	400	......			
Clover Croft	28	......	Conv. 9% '80/82	£87¾	......
Craig & Rose £1	£111½xd	......	Nat. 9¾% 84/89	£74⅝xd	......
Dyson (R. A.) A	32	−3	Fin. 13% 97/02	£88½	......
Ellis & McHdy	68	......	Alliance Gas	62	−3
Fife Forge	54	......	Arnott	370	......
Finlay Pkg. 5p	29	......	Carroll (P.J.)	111xd	......
Graig Ship. £1	310	......	Clondalkin	86	......
Higsons Brew	78	......	Concrete Prods.	100	......
Holt (Jos) 25p	260	......	Heiton (Hldgs.)	81	......
I.O.M. Stm. £1	160	......	Ins. Corp.	217	......
Pearce (C. H.)	240	......	Irish Ropes	87½xd	......
Peel Mill	30	......	Jacob	45	......
Sheff. Refrshmt	90	−3	T.M.G.	190	......
Sindall (Wm.)	148	......	Unidare	83	......

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3-month Call Rates

Industrials		I.C.I.	24	Tube Invest.	30
A. Brew	9	"Imps"	8	Unilever	55
BOC Intl.	6	I.C.L.	55	U.D.T.	6
B.S.R.	7	Inveresk	7	Utd. Drapery	10
Babcock	10	KCA	5	Vickers	18
Barclays Bank	32	Ladbroke	22	Woolworths	7½
Beecham	52	Legal & Gen.	14		
Blue Circle	18	Lex Service	11	**Property**	
Boots	18	Lloyds Bank	25	Brit. Land	7½
Bowaters	18	"Lofs"	5	Cap. Counties	9
B.A.T.	28	London Brick	7	Land Secs.	25
Brown (J.)	50	Lonrho	8	MEPC	17
Burton 'A'	26	Lucas Inds.	25	Peachey	13
Cadburys	7	"Mams"	18	Samuel Props.	14
Courtaulds	10	Mrks. & Spncr	11	Town & City	2¼
Debenhams	8	Midland Bank	30		
Distillers	21	N.E.I.	14	**Oils**	
Dunlop	6½	Nat. West. Bank	28	Brit. Petroleum	100
Eagle Star	14	Do. Warrants	15	Burmah Oil	13
E.M.I.	12	P & O Dfd.	10	Charterhall	5
Gen. Accident	21	Plessey	10	Premier	5
Gen. Electric	35	R.H.M.	5	Shell	25
Glaxo	50	Rank Org.	25	Ultramar	25
Grand Met.	14	Reed Intnl.	18		
G.U.S. 'A'	30	Sears	5½	**Mines**	
Guardian	24	Spillers	4½	Charter Cons.	16
G.K.N.	28	Tesco	7	Cons. Gold	28
Hawker Sidd	26	Thorn	35	Rio T. Zinc	27
House of Fraser	18	Trust Houses	17		

FINANCIAL TIMES

Monday July 2 1979

WIDE-RANGING ECONOMIES SOUGHT AS COST OF MATERIALS RISES

Health cuts 'put patients at risk'

BY JOHN LLOYD

HEALTH SERVICE spending cuts—to total £30m in London alone in this financial year—could be very damaging to the clinical services and will result in a risk to patient mortality, according to health service management and medical reports.

Area health authorities are looking for wide-ranging economies to accommodate rises in materials cost due to the value added tax increases announced in the Budget, and pay awards which the Government has said it will honour.

Cash limits for the health services have not been reduced —but cannot accommodate the extra costs.

In the case of one of the six London area health authorities, Kensington and Chelsea and Westminster (which contains a number of well-known teaching hospitals, including the Middlesex) the cuts amoiunt to £2m.

Last week the authority received hastily-prepared reports from the management teams in each of its three districts on how the cuts might be implemented.

The proposals were approved last Thursday by the area's policy and resources committee sex) the cuts amount to £2m. and that decision must be ratified by the authority's board next week. Such ratification is normally automatic.

All three reports, drawn up by professional administrators and doctors, make it clear that the proposed cuts are likely to have a damaging effect on services.

The management team for the south district, says, for example, that the measures have been identified with profound misgivings, and should be implemented only with specific instructions from the authority.

The consultant representative on the north east district team records his view in his team's report that the measures proposed will result in "a risk to patient mortality, increased morbidity and significant damage to the undergraduate medical and teaching programme". (the district includes the Middlesex Hospital).

The north west district team "both individually and collectively are convinced that most of the proposals . . . are very damaging to the clinical services to patients within the district and will take those services below the level needed."

The district reports show that, while there is room for some trimming on manning, economies already made have left, in the administrators' view, little fat.

Some of the cuts proposed throughout the area are:

- closure of the Athlone Recovery Unit and two wards in the Middlesex Hospital
- closure of wards at St. Mary's, St. Charles, Gordon and St. Stephens Hospitals, and of the accident and emergency department at St. Mary Abbot's.
- closure of in-patient beds at Paddington Green Children's Hospital.
- discontinuing of gynaecological surgery at St. Mary's Hospital.

The reports forecast that the economies would run into fierce opposition from health service trade unions and from community health councils.

The report from the south district says that "the action needed to make such savings is likely to involve management informing staff of changes rather than consulting them. Authority-agreed procedures requiring consultation would have to be suspended. . . ."

On relations with the community health councils, the same report says: "If cuts are to be made within this time scale—to be effective before the end of this financial year—it is necessary for the authority to appreciate that the normal informal consultative procedures with bodies such as the community health council may have to be abandoned."

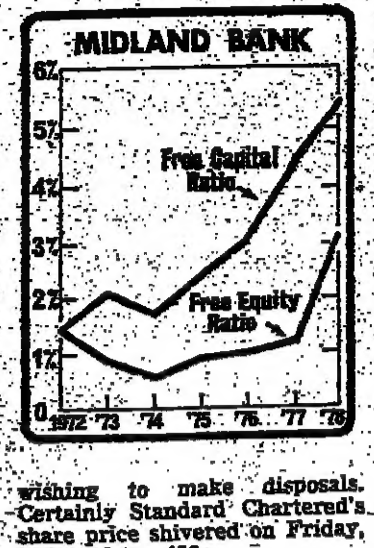
Mr. David Triesman, secretary of the Cities of London and Westminster Trades Councils and the TUC nominee on the authority, said last night that the local trade union movement would oppose the cuts.

"However, if they do go ahead, I am convinced that they would destroy health care in the area."

Commission report soon, Page 4

THE LEX COLUMN

Midland stretches to buy Heller



A year ago Midland Bank would hardly have been in a position to contemplate a North American takeover deal on anything like the scale of the proposed Walter E. Heller acquisition. But all its various efforts to improve its capital ratios over the years—its moves have included two rights issues and successive tranches of subordinated dollar debt—culminated at the end of last year with the sale of Bland Payne for cash. Together with some cosmetic changes to deferred tax accounting policies, that left its end-1978 free equity ratio at 3.1 per cent, a healthy figure, and including subordinated loans the overall free capital ratio was well over 5 per cent.

However, Midland cannot pay such a generous price for Heller—well over twice the market price before bid rumours began—without doing some damage to these ratios. Midland is offering $520m for a group with net worth of $285m, which is going to lead, if the deal goes through, to a goodwill item of a little more than £100m. in Midland's balance-sheet. Since intangibles are customarily ruled out of the free capital calculations, Midland's free equity will be reduced while its balance-sheet liabilities increase on the consolidation of Heller. This could trim the free equity ratio to only about 2 per cent.

Although this would be on the low side for the British clearing banks, it would not be a major problem—especially as the Heller merger, if it ever happens at all, will take many months to be approved by the U.S. authorities and is therefore unlikely to be a factor in the end-1979 balance sheet. Midland has time, and a bumper year for domestic profits, and retentions on its side.

There is, however, another aspect. Midland is highly geared, with subordinated debt financing 43 per cent of its capital base, and Heller is also heavily borrowed, with a total of $841m classified as long-term debt in the last balance sheet. On consolidation, therefore, the group could emerge with an unusually high ratio of long-term debt to equity.

Last week Midland was denying that it had any intention of disposing of its interests in Standard Chartered or European American Banking, but there is no telling at this stage what the attitude of the Federal Reserve Board will be. In any case, the gearing implications could give Midland another reason for wishing to make disposals. Certainly Standard Chartered's share price shivered on Friday, losing 12p to 456p.

Having just taken up its rights in Standard Chartered for £12.5m Midland now has an investment worth £62m (somewhat less than the book value of just over £80m). Given that it is going to be increasingly difficult for Midland to continue to consolidate its share of earnings in Standard Chartered in contravention of the accounting standard SSAP 1, a disposal could make sense from a number of points of view, though Midland is unlikely to be in a hurry.

Other potentially saleable assets like the 14 per cent stake in European American, or the wholly-owned Thomas Cook, have a more speculative value. There is no question of Midland being forced to dispose of major assets, but on the other hand it is one of the *smaller* of the Big Four clearing bank groups and it is proposing the largest of the series of Big Four U.S. acquisitions. It will clearly be carefully examining its balance sheet structure.

Meanwhile the share price reacted unenthusiastically on Friday, easing 10p to 382p. Whatever the longer term potential, there can be no early payoff for Midland from the Heller takeover, for pre-tax income of $60m is likely to be fully absorbed by financing costs, while Midland's earnings are likely to be reduced by goodwill amortisation of around £5m a year.

Hill Samuel

For a merchant bank which is intent on avoiding capital intensive businesses, Hill Samuel has a life assurance subsidiary which shows a voracious appetite for funds. The group annual report discloses that the parent company recently bought its own head office from Hill Samuel Life Assurance for £12.8m, the current market value. Only two years earlier the opposite transaction took place at what was, even then, a bargain price of £3.8m. The upshot is a net transfer of £8.8m in cash to the insurance company.

This has come on top of the £6.25m of extra capital put into the subsidiary in 1976. Hill Samuel decided in that year to deconsolidate HSLA and has not drawn a dividend since, preferring to plough them back into the business to. In all, Hill Samuel has apparently put between £15m and £20m into the subsidiary in the past three years.

The problem for Hill Samuel is that this business has been persistently undercapitalised—a deficiency which pending EEC and domestic regulations have made increasingly pressing. The resulting cash needs have been considerable for a group of Hill Samuel's size—the group's shareholders' funds were £82m in March. The cash requirement has comfortably exceeded the £10m of new capital put into the group by Arab and U.S. investors at the beginning of last year. So it is just as well that the management expects some sort of pay-out from the life subsidiary business at the end of this business year.

Inflation

Both Hambros and Hill Samuel give indications in their annual reports of the effect of inflation on net monetary assets. The figures illustrate how vulnerable merchant banks are on this score because they operate on the basis of higher capital ratios than the clearing banks, for example. Hill Samuel estimates a charge of £3m against profits would be required to maintain the real value of disclosed monetary assets, a charge which would cut banking profits by two-thirds. Hambros calculates a required adjustment of £8.4m which would more than wipe out the disclosed banking profit for 1978-79, admittedly struck after what could well have been a large transfer to inner reserves.

These inflation adjustments understate full impact of inflation to the extent that there are further, undisclosed monetary assets—the inner reserves. Yet they also overstate the effect on shareholders' earnings since there is no reduction for gearing although both parent groups have substantial loan capital.

Selective aid likely to go on

By John Elliott

ONE OF the first indications that the Government is relaxing its outright opposition to selective industrial aid to companies is likely within a couple of weeks. Plans are expected to be announced for encouraging foreign companies to invest in Britain.

Sir Keith Joseph, Industry Secretary, is expected to say that the Government is prepared to top up ordinary regional aid with special grants to attract inward investment.

He has been forced to make a decision on this issue because an existing £150m selective investment scheme used for inward investment projects as well as for UK companies' developments, closed for applications at the week-end.

It seems likely that the Government will announce in the next couple of weeks that applications already made for aid will continue to be processed, and that further money will be made available for future projects which meet strict criteria.

The Government is also expected to continue with aid schemes totalling £296m. introduced by the last Government for some individual industrial sectors.

There is still a question mark over two recently introduced schemes for micro-electronics developments totalling £125m. Only about £10m has been allocated to individual projects, making the schemes natural targets for public spending cuts.

Sir Keith indicated his decision on the inward investment aid during a tour of the North-East at the weekend when he said the UK could "not completely disarm" when other countries provided similar inducement for what are known as "internationally mobile projects."

Sir Keith Joseph feature, Page 4

Government to toughen laws on price rises

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

AN UNPUBLISHED Department of Trade document shows Government plans to introduce tougher laws to help curb excessive price rises and increase competition.

The legislation, due to be published in a few weeks, has taken longer than expected to prepare because of technical problems with the proposals.

The document has been circulated to a few interested bodies to gauge reaction. "The primary means of dealing with excessive prices will be by tackling the limitations of competition that give rise to such prices," it says.

The proposals have already been criticised by consumer organisations including the National Consumer Council which feels that the proposed powers to deal with prices are likely to be inadequate and overtaken by events.

The Government plans to use both the existing powers of investigating monopolies as well as giving powers to both the Office of Fair Trading and the Monopolies and Mergers Commission.

Under the existing monopoly legislation, the director-general of fair trading can refer to the commission cases where competition is limited by market structure or where pricing policy suggests an abuse of monopoly power.

The definition of anti-competitive practices to be included in the legislation is likely to closely follow those given in the previous Government's Green Paper on restrictive trade practices. Chapter 6 and paragraphs 7.28 to 7.40 of the Green Paper will be particularly relevant.

The director-general "will be given powers, much on the lines of those already available to the commission, to gather information and he will be required to publish his findings, but not to make a full report."

If this investigation reveals prima facie evidence that the practice is restricting competition, then the director-general—subject only to a veto by the Trade Secretary—will be able to refer the company or companies to the commission for a full report.

"The commission will then be required to report within a specified time whether the firm or firms concerned is or have been carrying out the practice specified and whether that practice restricts or distorts competition, and if so whether it operates or may be expected to operate against the public interest." In determining the public interest the commission will take account of section 84 of the 1973 Fair Trading Act, the document states.

If the commission's report is adverse, then the Trade Secretary will either ask the company or companies to stop the anti-competitive practice or he will be able to regulate their prices (as is already provided for in Schedule 8 of the Fair Trading Act).

In addition, the Trade Secretary will be able to ask the director-general "to investigate a price rise which he considers to be of major public concern." He will be required to produce a report which will be submitted to the Secretary of State.

Commons awaits PO statement

THE GOVERNMENT may make a Commons statement today about the problems affecting the Post Office, in spite of an easing of the postal backlog over the weekend.

Sir Keith Joseph, Industry Secretary, yesterday cancelled a visit to South Wales to be available today in the House. Political pressure has been mounting for a Government initiative.

Last week, Sir Keith told MPs, he did not rule out the possibility of the Post Office losing its statutory monopoly for carrying mail. Since then, postal hold-ups have worsened and he is likely to be urged this week to take action.

Last night, however, the Post Office said that following major efforts over the weekend, the backlog was easing. It was no longer necessary for people to post only urgent mail, although major users should check with local post offices before mailing batches of over 1,000 items.

Meanwhile, the Post Office has obtained Government agreement to increase its borrowing authority, or "overdraft limit" from £75m to £325m.

The request went to the Government about four weeks ago, when action by computer staff working on telephone bills threatened to affect cash flow in the telecommunications business.

The corporation has not drawn on the funds, though it is likely that it will do so if the dispute continues. At present, it borrows about £5m a day from the postal business, and has incurred more than £35m in interest charges so far.

- The Mail Users' Association has referred the Post Office to the Advertising Standards Authority.

It claims the corporation has contravened the code which lays down that all advertisements "should not be so framed as to abuse the trust of the consumers." The association says the Post Office has undertaken to give mail users three months' notice of tariff increases, yet its most recent round of postal price rises had been introduced with only two months' notice.

"*We are raising this matter with great regret, but it really does not help the reputation of the Post Office if it breaks its promises. No private concern would be allowed to break its word in this way,*"

Farmers seeking fuel priority

BY CHRISTOPHER PARKES

FARMING has a strong claim on essential fuel supplies this summer, Mr. Richard Butler, president of the National Farmers Union, said on the eve of the Royal Show, which opens at Stoneleigh, Warwickshire, today.

If the weather is dry at harvest time, Mr. Butler said, the industry could get by with the minimum amount of fuel. "But if it turns wet, the whole process will slow down. Combine harvesters, tractors and grain dryers could suddenly need a massive amount of fuel," he warned.

The 200,000 people expected to visit the four-day show will be educated in fuel-saving techniques and treated to displays of unfashionable extravagance.

The Royal Agricultural Society of England, for example, is demonstrating a system for extracting heat from cows' milk which is then used to warm water for washing the cows' udders.

And 30 souped-up tractors—one with a Spitfire engine—will indulge in a daily display of power, pulling massive deadweights in competition.

Officials claim in mitigation that each pull in the contest consumes only half a pint of fuel. The also assure visitors that the showground has ample supplies of petrol for their cars.

The show, to be opened by Sir Hector Laing, chairman of United Biscuits, regularly attracts about a third of Britain's farming community, and is increasingly popular among overseas buyers.

Continued from Page 1

Industry

has been a sharp improvement in the level of optimism about both the prospects for the UK economy and the general business outlook. But the key influence has been the change of Government.

"The need for industry to respond positively to the Budget was the theme of weekend letters to top businessmen from both the CBI and the British Institute of Management.

In a letter to managing directors of all CBI member firms, Sir John Methven, the director general, warned that if industry failed in the new environment created by the Government and the Budget, when it was being given the sort of incentives it had asked for, it might never be believed again.

"We may never get such a chance again. And we should not be surprised then if other, unpalatable alternative strategies gain more attraction."

Sir John said industry should respond to changes by showing that managers and employers were taking specific actions on investment, wages and salaries, productivity and "by explaining the facts of life to our workforce to a much greater extent than in the past."

The BIM statement—signed by Mr. Leslie Tolley, chairman, and Mr. Roy Close, director-general—said the Budget provided a large part of what managers had sought. It was a challenge to managements, managers, professionals to improve the UK's efficiency, competitiveness and industrial performance.

70% of new cars for business use

BY LISA WOOD

MORE THAN 70 per cent of all new cars sold in the UK—nearly 1,582,000 in 1978—were bought or leased for some aspect of business use, according to a survey published today by the British Institute of Management.

The survey found that most organisations allocating cars viewed them as an integral part of fringe benefits.

"The practice became widespread in the late 1950s and early 1960s when companies provided cars in an attempt to attract good managers," the Institute said. "Today it is an essential feature of recruitment policy and it is doubtful if employees would move from a position with a car to one without."

The trend in recent years has been away from privately-owned cars funded from mileage allowances to cars run and owned by the company. The survey points out that meeting employees' expectations in the type of car allocated could be difficult since they tended to mirror the company's hierarchy.

Cars are also an essential requirement of many companies' salesforce. But while the most popular car, among the 471 organisations interviewed by BIM, for the chairman and managing director was a Jaguar XJ4.2, the most popular for the salesforce was the Ford Cortina.

British cars still dominate the market but many smaller companies told the Institute that they were buying or leasing more foreign cars.

BIM Management Survey Report No. 44. £25.

Fiat Brazil to export diesel cars to Europe

BY STEWART MARSHALL AND DIANA SMITH IN RIO DE JANEIRO

FIAT BRAZIL is to export 20,000 of the world's smallest diesel engined cars to Europe, starting next spring.

A 1300 cc engine developing 45 hp will be fitted into the model 147, which is a Brazilian-made derivative of Europe's best-selling small car, the Fiat 127. The same engine will also be used in the Fiat Ritmo diesel, which will be assembled in Italy.

Initially sales of the 147 will be restricted to Italy, but it will become available in other European markets later in the year. Prices are not known, but Fiat said they would be in line with those of the 127. Shipping costs of about $300 per car will be cancelled out by the lower production costs in Brazil.

Fiat inaugurated its $500m car factory and foundry operations in Brazil in 1977. The Minas Gerais state Government has a 42 per cent share in the venture. Fiat received tax credits under a 10-year export programme.

The 147 is the major model produced, and took 11 per cent of the domestic market in 1978. Fiat also produces 10,000 Alfa Romeos a year at the same plant.

In 1978, about 100,000 Fiat 147s were produced—about half the plant's total capacity. By next year, Fiat hopes to have recouped the losses suffered from idle capacity in its first two years of operation.

Weather

UK TODAY

MOSTLY dry with sunny periods.

London, S.E., E. Anglia

Mostly dry. Cloudy at first, sunny periods developing. Max. 20C (68F).

Rest of England, Channel Is., Wales, Borders, E. and N.E. Scotland

Mostly dry. Sunny periods. Max. 20C (68F).

Orkney, Shetland

Rather cloudy, drizzle at times. Max. 9C (48F).

Rest of Scotland, Isle of Man, N. Ireland

Rather cloudy, occasional drizzle. Sunny intervals developing inland. Max. 16C (61F).

Outlook: Dry with sunny intervals in S., changeable with some rain in N.

		Y'day midday °C	°F
Ajaccio	S	24	75
Algiers	S	26	79
Amsdm.	F	15	59
Athens	S	29	84
Bahrain	S	37	99
Barclna.	F	23	73
Beirut	S	28	82
Belfast	F	15	59
Belgrd.	C	20	68
Berlin	C	15	59
Biarritz	C	19	66
Bmghm.	F	16	61
Blackpl.	F	13	55
Bordx.	C	19	66
Boulgn.	S	14	57
Bristol	S	16	61
Brussels	C	15	59
Budpst.	F	22	72
Cairo	S	32	90
Cardiff	S	16	61
Cas'b'ca	F	22	72
Cape T.	S	17	63
Chicago	S	22	72
Cologne	F	16	61
Cpnhgn.	F	15	59
Corfu	S	29	84
Dublin	C	13	55
Dbrvnk.	F	27	81
Ednbgh.	C	14	57
Faro	F	23	73
Florence	F	30	86
Frankft.	F	17	63
Geneva	F	18	64
Glasgow	C	12	54
G'nsey	S	14	57
Helsinki	F	16	61
H. Kong	S	28	82
Innsbrk.	F	20	68
I.o.Man	C	12	54
Istanbul	F	27	81
Jersey	F	14	57
Jo'burg	S	17	63
L. Plms.	S	25	77
Lisbon	C	22	72
Locarno	F	26	79
London	C	15	59
Luxmbg.	C	12	54
Luxor	S	38	100
Madrid	F	25	77
Majorca	F	28	82
Malta	S	30	86
M'chstr.	C	14	57
Melbne.	C	11	51
Mntreal.	C	22	72
Moscow	R	19	66
Munich	C	15	59
Nairobi	R	22	72
Naples	F	27	81
Nwcstl.	C	15	59
N. York	C	23	74
Nice	F	25	77
Nicosia	S	28	82
Oporto	C	18	64
Oslo	F	14	57
Paris	C	15	59
Perth	S	14	57
Prague	S	15	59
Reykjvik.	R	8	46
Rhodes	S	29	84
Rome	S	27	81
Salzbrg.	C	17	63
Singapr.	S	30	86
Stckhm.	F	18	64
Strasbg.	C	17	63
Sydney	S	15	59
Tangier	C	23	73
Tehran	S	31	88
Tel Aviv	S	28	82
Tenerife	F	20	68
Tokyo	C	23	74
Toronto	R	16	61
Tunis	S	31	88
Valencia	C	23	73
Venice	C	23	73
Vienna	F	19	66
Warsaw	F	17	63
Zurich	C	16	61

C—Cloudy. F—Fair. Fg—Fog. R—Rain. S—Sunny. Sl—Sleet. Sn—Snow.

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